

AFRICAN DEVELOPMENT FUND

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APPRAISAL REPORT

ARTISANAL FISHERIES DEVELOPMENT PROJECT

REPUBLIC OF MOZAMBIQUE

NB: This document contains errata or corrigenda (see Annexes)

COUNTRY DEPARTMENT
SOUTH REGION

OCDS
AUGUST 2001

TABLE OF CONTENTS

	<u>Page</u>
PROJECT INFORMATION SHEET, CURRENCY AND MEASURES, LIST OF TABLES (i-viii) AND ANNEXES, LIST OF ABBREVIATIONS AND ACRONYMS, BASIC DATA SHEET, PROJECT LOGICAL FRAMEWORK, EXECUTIVE SUMMARY	
1. INTRODUCTION AND BACKGROUND	1
2. FISHERIES SECTOR	1
2.1 Marine Fisheries Resources	1
2.2 Importance of the Sector in the Economy	2
2.3 Main Features and Structure	2
2.4 Fisheries Institutions and Support Services	3
2.5 Financial and Credit Services Institutions	5
2.6 Development Potential and Constraints	7
2.7 Fisheries Development Policy and Strategy	8
2.8 Donor Supported Activities	8
2.9 Rural Poverty in Mozambique	9
2.10 Gender Issues	10
3. ARTISANAL FISHERIES SUB-SECTOR	10
3.1 Salient Features	10
3.2 Constraints to Development of Sub-sector	11
3.3 Strategies for Development	11
4. THE PROJECT	12
4.1 Project Concept and Rationale	12
4.2 Project Area and Beneficiaries	13
4.3 Strategic Context	14
4.4 Project Objectives	15
4.5 Project Description	15
4.6 Production, Market and Prices	18
4.7 Environmental Impact	19
4.8 Project Costs	20
4.9 Sources of Financing	21
5. PROJECT IMPLEMENTATION	22
5.1 Executing Agency	22
5.2 Institutional Arrangements	22
5.3 Procurement Arrangements	23
5.4 Supervision and Implementation Schedules	25
5.5 Disbursement Arrangements	25
5.6 Monitoring and Evaluation	26
5.7 Financial Reporting and Auditing	26
5.8 Aid Coordination	26
6. PROJECT SUSTAINABILITY AND RISKS	27
6.1 Recurrent Costs	27
6.2 Project sustainability	27
6.3 Critical Risks and Mitigating Measures	27

TABLE OF CONTENTS (cont'd)

	<u>Page</u>
7. PROJECT BENEFITS	28

7.1	Financial Analysis	28
7.2	Economic Analysis	28
7.3	Social Impact Analysis	29
7.4	Sensitivity Analysis	30
8.	CONCLUSIONS, RECOMMENDATIONS AND CONDITIONS FOR APPROVAL	30
8.1	Conclusion	30
8.2	Recommendations and Conditions for Loan Approval	31

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AFRICAN DEVELOPMENT FUND
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PROJECT INFORMATION SHEET

Date: June 2001

The information given hereunder is intended to provide guidance to prospective suppliers, contractors and all persons interested in the procurement of goods, works and services for projects approved by the Boards of Directors of the Bank Group. More detailed information and guidance should be obtained from the Executing Agency of the Borrower.

- | | | |
|----------------------------|---|---|
| 1. COUNTRY | : | Republic of Mozambique |
| 2. TITLE OF PROJECT | : | Artisanal Fisheries Development Project |
| 3. LOCATION | : | Seven coastal districts in Cabo Delgado Province (namely, Palma, Mocimboa da Praia, Macomia, Ibo, Quissanga, Pemba and Mecufi) and 3 coastal districts in Nampula Province. (namely Memba, Nacala-A-Velha and Mossuril) |
| 4. BORROWER | : | Government of Mozambique |
| 5. EXECUTING AGENCY | : | Ministry of Fisheries, Institute for Smallscale Fisheries Development (IDPPE), P.O. Box 2473 Maputo.
Mozambique
Tel: (258) 1 427443; Fax: (258) 1 494974 |

6. PROJECT DESCRIPTION: The project aims to increase the production of fish and the incomes for smallholder fishers, processors, and traders of the project area. The project components are i) Provision of credit to boost Fish Production and promote fish marketing; ii) Provision of community infrastructure, and (iii) Strengthening Institutional Capacity. The main activities will include provision of short- and medium-term credit for financing improved fishing boats and gear, fish processing and marketing activities, training of staff, fishers and entrepreneurs including women, and provision of technical assistance and equipment. The project will also make provision to improve fish landing sites, water supply, access roads and markets.

- | | | |
|--|----------------|-----------------|
| 7. TOTAL COST | : | UA18.50 million |
| Foreign exchange | : | UA10.04 million |
| Local cost | : | UA8.46 million |
|
 | | |
| 8. ADF Loan | : | UA14.17 million |
| TAF Grant | : | UA 1.73 million |
|
 | | |
| 9. OTHER SOURCES OF FINANCE | | |
| Government of Mozambique | : | UA 2.01 million |
| Beneficiaries | : | UA 0.61 million |
|
 | | |
| 10. DATE OF APPROVAL: | September 2001 | |
|
 | | |
| 11. PROBABLE COMMENCEMENT DATE AND PROJECT DURATION | | |
| Commencement | : | September 2002 |
| Duration | : | 6 Years |

12. PROCUREMENT OF GOODS, WORKS AND SERVICES

Procurement of goods, works and services financed by the ADF resources will be done in conformity with Bank Group Rules of Procedure. The procurement of civil works, vehicles, equipment, will be done National Competitive Bidding whereas the consultancy services will be done through open competition on the basis of a short-list. Goods procured from the credit will be procured using commercial practices acceptable to the Bank

13. CONSULTANCY SERVICES REQUIRED

Long-term technical assistance inputs will be required in Rural Credit Management, Fish Marketing, Marine Environmental Protection, Gender and Community Participation. In addition short-term consultancy services for training, mid-term review and auditing of the project accounts will be required.

CURRENCY AND MEASURES

(June 2001)

Currency Unit	=	Meticals (MZM)
UA 1	=	MZM 23,563.2
UA 1	=	USD 1.26065
US\$ 1	=	MZM 21,000.0

FINANCIAL YEAR
1 January – 31 December

WEIGHTS AND MEASURES

1 MT (Metric Tonne)	=	2,200 lbs. (pounds)
1 kg (kilogram)	=	2.2 lbs.
1 m (metre)	=	3.28 ft (feet)
1 Ha (Hectare)	=	2.471 acres
1 km ²	=	100 Ha

LIST OF ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
DNAP	Directorate of National Administration for Fisheries
DPP	Provincial Fisheries Authority
EP	Fisheries School
EIRR	Economic Internal Rate of Return
ESMP	Environmental and Social Management Plan
EU	European Union
FAO/IC	Food and Agriculture Organisation/Investment Centre
FB	Fishery Biologist
FC	Fishers into Committees
FFP	Fisheries Development Fund
FFPI	Development Fund for Small-Scale Industries
FPP	Fish Processing Plant
GDP	Gross Domestic Product
GOM	Government of Mozambique
GRP	Glass Reinforced Plastic
HOD	Head of the Delegation
ICB	International Competitive Bidding
IDPPE	Institute for the Development of Small-Scale Fisheries
IFAD	International Fund for Agricultural Development
IIP	Fisheries Research Institute
MFIs	Micro-Finance Institution
MICOA	National Directorate for Co-ordination of Environmental Affairs
MOF	Ministry of Fisheries
NORAD	Norwegian Agency for Development
NAFP	Nampula Artisanal Fisheries Project
NCB	National Competitive Bidding
NCC	National Co-ordination Committee
NGOs	Non-Governmental Organisations
NFZ	Northern Fishing Zone
OPEC	Organisation of Petroleum Exporting Countries
PC	Project Co-ordinator
PCC	Provincial Co-ordination Committee
PFI	Participating Financial Institution
PCU	Project Coordination Unit
SPAP	Provincial Service for Fisheries Administration

LIST OF TABLES

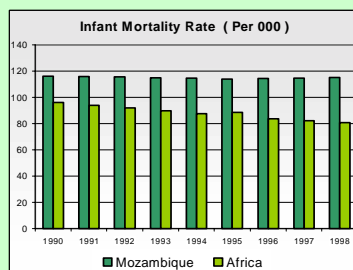
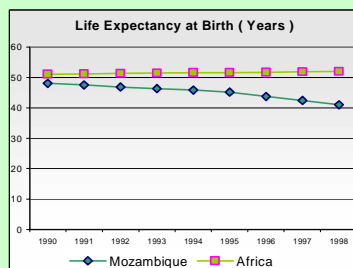
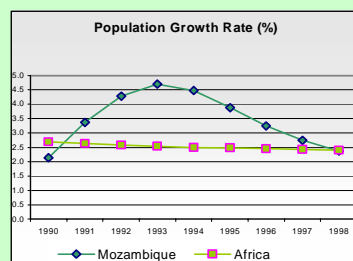
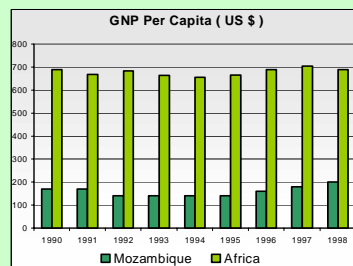
<u>TABLE</u>	<u>Page</u>
4.1 Summary of Project Cost Estimates by Component	20
4.2 Summary of Project Cost by Category of Expenditure	20
4.3 Sources of Finance	21
5.1 Summary of procurement arrangements	21
5.2 Expenditure Schedule by Component	24
5.3 Expenditure Schedule by Source of Finance	24

LIST OF ANNEXES

<u>ANNEXES</u>	<u>Number of Pages</u>
1. Map of Project Area	1
2 Project organigram	1
3 Implementation Schedule	1
4 Summary of Economic Analyses	1
5 Environmental and Social Management Plan Summary	2
6 Provisional List of Goods and Services	1
7 List of Annexes in Project Implementation Document	1

MOZAMBIQUE: BASIC DATA SHEET
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Mozambique	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)		802	30,061	80,976	54,658
Total Population (millions)	1998	18.9	748.0	4,718.9	1,182.2
Urban Population (% of Total)	1998	37.4	38.2	39.6	75.6
Population Density (per Km²)	1998	23.6	24.9	58.3	21.6
GNP per Capita (US \$)	1998	200	687	1,250	25,890
Labor Force Participation - Total (%)	1998	52.0	43.7	...	...
Labor Force Participation - Female (%)	1998	25.2	37.0	...	...
Gender -Related Development Index Value	1997	0.3	0.5	0.6	0.9
Human Development Index (Rank among 174 countries)	1997	169	n.a.	n.a.	n.a.
Population Living Below \$ 1 a Day (% of Population)	1989-94	...	45.0	32.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	1998	2.4	2.4	1.6	0.3
Population Growth Rate - Urban (%)	1998	6.1	4.3	3.1	0.6
Population < 15 years (%)	1998	44.6	42.9	33.2	18.8
Population >= 65 years (%)	1998	3.2	3.2	19.7	26.7
Dependency Ratio (%)	1998	72.2	86.9	61.7	48.8
Sex Ratio (per 100 female)	1998	97.5	99.3	103.3	94.8
Female Population 15-49 years (millions)	1998	4.3	176.2	1,213.4	296.8
Life Expectancy at Birth - Total (years)	1998	41.0	52.7	64.0	75.4
Life Expectancy at Birth - Female (years)	1998	41.9	53.4	65.8	79.1
Crude Birth Rate (per 1,000)	1998	42.1	37.7	23.8	11.0
Crude Death Rate (per 1,000)	1998	21.9	13.7	8.4	10.3
Infant Mortality Rate (per 1,000)	1998	115.0	80.7	58.9	9.0
Child Mortality Rate (per 1,000)	1998	175.0	116.1	76.2	10.4
Maternal Mortality Rate (per 100,000)	1996	1,500	698	488	30
Total Fertility Rate (per woman)	1998	6.0	5.0	2.9	1.6
Women Using Contraception (%)	1986-95	...	...	56.0	70.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1990-96	6	23	76	253
Nurses (per 100,000 people)	1988-96	20	89	85	780
Births attended by Trained Health Personnel (%)	1991	25	...	54	99
Access to Safe Water (% of Population)	1990-97	28	55	72	100
Access to Health Services (% of Population)	1995	39	60	80	100
Access to Sanitation (% of Population)	1990-97	54	45	43	100
Percentage of Adults (aged 15-49) Living with HIV/AIDS	1997	14.2	5.7	...	...
Incidence of Tuberculosis (per 100,000)	1995	189	201	157	24
Child Immunization Against Tuberculosis (%)	1996	79	77	88	93
Child Immunization Against Measles (%)	1996	57	63	79	90
Underweight Children (% of children under 5 years)	1990-97	26	26	31	...
Daily Calorie Supply	1996	1,729	2,406	2,650	3,222
Public Expenditure on Health (as % of GDP)	1995-97	...	1.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	1995	60.2	79.5	100.0	103.0
Primary School - Female	1995	50.2	73.0	93.8	103.2
Secondary School - Total	1995	7.1	28.3	50.4	100.3
Secondary School - Female	1995	5.5	25.7	45.3	101.8
Primary School Female Teaching Staff (% of Total)	1995	22.8	45.0	51.0	82.0
Adult Illiteracy Rate - Total (%)	1997	59.5	43.5	28.2	1.3
Adult Illiteracy Rate - Male (%)	1997	43.3	33.0	19.6	1.0
Adult Illiteracy Rate - Female (%)	1997	75.0	51.6	35.8	1.5
Percentage of GDP Spent on Education	1995	...	3.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	1996	3.8	5.9	9.9	11.6
Annual Rate of Deforestation (%)	1990-95	0.7	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1980-90	5.0	4.0	...	...
Per Capita CO2 Emissions (metric tons)	1996	0.1	1.1	2.1	12.5



Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.

Republic of Mozambique : Artisanal Fisheries Development Project - Project Logical Framework

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumption/Risks
1. Sector Goal Contribute to poverty reduction and food security	1.1 Contribute to GOM global objective to reduce absolute poverty by 30% in 2009	1.1 National statistics 1.2 Survey reports	
2. Project objective Boost fish production, improve income of the fishing communities and expand domestic fish trading in Cabo Delgado and Northern Nampula provinces	2.1 Fish landing raised to 8 800MT/year by PY6 2.2 Income of smallscale fishers and traders raised by 50% by PY3; and 100% by PY9 2.3 25 new fish traders and suppliers engaged in fish business by PY6	2.1 IDPPE / ADB progress & annual reports	- GOM, MOF, IDPPE & concerned villages willing to implement the project as scheduled
3. Outputs 3.1 Credit delivery mechanism established and functioning 3.2 Community assisted and related infrastructure provided 3.3 Institutional capacity strengthened	By EOP 3.1.1 300 wooden boats with sail improved 3.1.2 100 wooden boats with motor 3.1.3 110 new wooden boats and 60 GRP boats 3.1.4 10 ice plants, 5 trucks and 10 pickups provided to fish traders 3.1.7 2 fish markets rehabilitated 3.2.1 5 landing sites constructed 3.2.2 220 km of road improved 3.2.3 20 wells rehabilitated + 40 new ones 3.3.1 PCU established as loan condition 3.3.2 New regional IDPPE office built 3.3.3 TA and members recruited 3.3.4 IIP branch office & DPP established 3.3.5 20 000 fishers and traders trained 3.3.6 60 committees formed and trained	3.1 Progress & annual reports by project management and financing institutions	- Fishers, traders and other entrepreneurs will invest in business - Rehabilitated roads will be maintained by regional and village Authorities - Activities fully integrated in the local environment - IDPPE performance will improve after strengthening
4. Activities 4.1 <u>Credit delivery</u> a. Provide credit for boats, gears, & equipment b. Establish credit mechanisms c. Provide credit for ice plants and cold rooms d. Provide credit for fish traders (transport/marketing) 4.2 <u>Community infrastructure provision</u> 4.2.1 Develop fishing centre at Memba 4.2.2 Rehabilitate access roads and wells 4.2.3 Construct fish handling infrastructures 4.2.4 Rehabilitate fish markets (Montepuez, Nampula) 4.3 <u>Institutional capacity strengthening</u> 4.3.1 Mobilise and organise beneficiary communities 4.3.2 Demonstrate fishing gears & methods 4.3.3 Train fishers for marine environment protection 4.3.4 Conduct a socio-economic and gender analysis 4.3.5 Establish the PCU 4.3.6 Construct a new IDPPE office at Pemba 4.3.7 Train staff for rural technical assistance 4.3.8 Provide equipment and vehicles 4.3.9 Recruit TA and consultancy services	<u>Budget :</u> UA Million Credit delivery.....7.40 Fish production (3.89) Marketing promotion (3.01) Community infrastructure.....4.17 Institutional strengthening.....6.92 Total : 18.49	4.1 IDPPE, IIP, DDP, PCU, FF and ADB project reports	- Interest from all actors, i.e. GOM, MOF, national institutions, traders and beneficiaries

(Update: August 2001) .

EXECUTIVE SUMMARY

Project Background

Fisheries is an important sector of the economy of Mozambique. The sector is one of the main foreign exchange earners in the country. Mozambique's fish exports, valued at approximately US\$ 75 million (1999), contributed about 28% of exports and 12% of foreign exchange earnings. It contributes about US\$ 117 million to the economy (represents 8% of GDP). Since over two thirds of the population live within 150km of the coast, the fisheries sector is an important source of both animal protein and employment: some 90 000 people are employed in the sector -involved directly in fishing and fish gathering; fish processing and marketing. 90% are artisanal fishers, or those associated with the artisanal fisheries handling and distribution activities. About 50% of the people's protein intake are estimated to come from fish products. Fisheries become even more important to the coastal provinces as a large part of the population depends on fisheries for their livelihood.

Purpose of the Loan

The ADF loan of UA14.17 million, amounting to 77% of the total project costs, and a TAF grant of UA1.73 million (9% of project cost) will be used to finance 100% of foreign exchange (UA10.04.million) and 69% of local cost (UA5.86 million).

Sector Goal and project Objective

The project will contribute towards achieving the following sector goal: poverty reduction and enhance food security. The project's objective is to increase fish catch and incomes of artisanal fishers, fish processors and equipment and inputs distributors.

Brief Description o the Project's Outputs

The project will focus on: i) provision of credit to support fish production by artisanal fishers and promote fish marketing; ii) improvement of community infrastructure and (iii) Strengthening the capacity of fishing communities and fisheries institutions. The main activities will include provision of short- and medium-term credit for financing improved fishing boats, gear, fish, transport and marketing activities. It will also train communities, fishers, staff and entrepreneurs including women. The project will provide technical assistance, logistical support and equipment. Finally, the project will make provision for improvement of access roads, water supply and market facilities.

Project Cost

The total project cost net of duties and taxes is estimated at UA 18.49 million out of which UA 10.04 million (54%) will be in foreign currency and UA 8.46 million (46%) will be in local currency. The cost is UA21.14 million if taxes and duties amounting to UA2.71 million (12.8%) are included.

Sources of Finance

The project will be financed by an ADF loan, a TAF grant, the Government of Mozambique (GOM) and the beneficiaries. The ADF loan will finance credit for improved boats and fishing gear; fish conservation and transport; rehabilitation of access roads, water supply infrastructure, markets, office buildings and project management support. The TAF grant will finance institutional capacity strengthening. The total ADF contribution representing 86% of total costs will to cover 100% of foreign exchange costs and 69% of local costs. The Beneficiaries will contribute UA0.59 million towards the acquisition of fishing boats and gear, ice plants, pickups and refrigerated trucks. The Government's contribution of UA2.01 million representing 11% of the project total costs, will cover staff salaries, office rentals and utilities.

Project Implementation

The Ministry of Fisheries would be the executing agency through the IDPPE. The day to day management and co-ordination will be done by a Project Co-ordination Unit to be established within IDPPE

Conclusions and Recommendations

The project is socially desirable and environmentally sound, technically feasible and economically viable. The proposed project is a high priority in the poverty reduction strategy of the GOM and it is consistent with the Bank Group vision as well as the Bank Group strategy for Mozambique.

1. INTRODUCTION AND BACKGROUND

1.1 Mozambique covers an area of about 802 000 km². It is bounded by the Indian Ocean on the east, Tanzania on the north, Swaziland and South Africa on the south, Zimbabwe and Zambia on the west and Malawi on the Northwest (see map in Annex 1). Its population, which is growing at about 2.1% per annum, was estimated at about 19.4 million in 1999. The per capita GNP was estimated at USD200 per annum in 1999.

1.2 The incidence of absolute poverty is estimated at about 70% nation-wide and 72% in rural areas. Poverty has become the overarching objective in the formulation of any development strategy in the country. For the coastal provinces, considering the potential role that fisheries can play in the reduction of poverty, rapid development of artisanal fisheries is one of the objectives of the Government of Mozambique (GOM). This is clearly stated in the Master Plan (1996-2005) prepared by the GOM.

1.3 In order to realise the Government's strategy to reduce absolute poverty along the coastal areas the GOM is putting priority to support the artisanal fisheries sector. In this regard, the National Institute for the Development of Small-Scale Fisheries (IDPPE) formulated a programme to develop the marine fisheries resource. The GOM approached the African Development Bank (ADB) for assistance in developing its marine fisheries. The Bank requested the FAO Investment Centre (FAO/IC) to assist the Government to identify a project focused on artisanal fisheries. Accordingly, in November/December 1998 the FAO/IC identified the Artisanal Fisheries Development Project and later prepared the project in December 2000. Following GOM request, the project will cover fishing communities in two coastal provinces, i.e. Cabo Delgado and Northern Nampula. A Bank Group mission appraised the project proposal in June 2001. This report is based on the recommendations of the Preparation Report, field visits and discussions held with representatives of relevant GOM fishery institutions, the fishing communities, the private sector and donor agencies.

2. THE FISHERIES SECTOR

2.1 Marine Fishery Resources

2.1.1 Some 1 500 species are present in the Mozambican seawaters of which 400 are of direct commercial importance. There are no recent figures on sustainable catch of fish, however, it was estimated, in 1995, at over 350 000 MT, but only about 25% of this was utilised as shown in the table below. In many areas of Cabo Delgado and Nampula Provinces, there is a wide scope for fisheries expansion as the resource utilisation is still 14% of the potential. Pelagic fish and demersal species, particularly seem to offer possibilities for increased expansion. Large demersal and pelagic fish, associated with deeper waters are of particularly high value and can command high prices domestically and abroad. According to the production nomenclature used in Mozambique this type of fish is known as first category fish. The other categories are known as second and third.

National Potential Yields and Current Catches

Species	Potential Yield	Current Catch	Catch as % of Potential
		(tonnes)	
Small Pelagic	127 690	30 110	23.6
Demersal	135 540	30 830	22.7
Large Pelagic	44 220	7 020	15.9
Shrimp	24 800	15 880	64.0
Lobster	790	520	65.5
Crab	14 100	2 660	18.8
Cephalopods	1 790	310	17.3
Other	3 940	410	10.4
Total	352 870	87 740	24.9

Source: The Fisheries Master Plan, 1995

2.2 Importance of Fisheries to the Economy

The fisheries sector contributes about US\$ 117 million to the economy representing 8% of the GDP. It is one of the main foreign exchange earner in the country - fish exports, valued at approximately US\$ 75 million (1999), contributed about 28% of exports and 12% of foreign exchange earnings. Marine fisheries represent more than 80% of the country's total production and virtually all exports of fish products. About 90 000 people are involved directly in fishing and fish gathering, fish processing and marketing. Marine fisheries provide for more than 90% of the jobs in the sector. With over two thirds of the population within 150km of the coast, about 50% of the people's protein intake are estimated to come from fish. Although important, the current contribution of fisheries is much lower than its potential. Overall, it is estimated that the country uses only about 25% of its exploitable fish resources (FAO, 2000). Mozambique, therefore, has ample scope for expanding its fisheries, and can contribute further to the national economy, in terms of increased value added and export earnings, as well as improved living standards of fishing communities and related industries.

2.3 Main Features and Structure

2.3.1 The fishing sector in Mozambique consists of three types of producers: artisanal (using boats less than 10 m long), semi-industrial (boat size used is 10-20 m long and motors of less than 350 hp) and industrial (vessels over 20 m long and motors of up to 1 500 hp). Industrial fisheries consist of two types: a national fleet and a foreign fleet catching tuna and demersal fish. A total of 213 industrial vessels, of which 79 were Mozambican, operated in 1997, catching about 16 370 MT of fish. About 50% of the industrial catch consists of shrimp, which is the most valuable export commodity, lobster and some tuna. Production from the sub-sector is deep-frozen on board and entirely for the export market.

2.3.2 Semi-industrial fisheries are also important in terms of foreign exchange earnings as they specialise in catching shrimp and other first category fish for export. In 1997, 37 semi-industrial boats were landing about 510 MT of shrimp and 1 270 MT of first category fish. There is more national participation. The artisanal fishery is widespread along the coastline, often operating from open beaches. It is the oldest industry and is the way of life for a large number of fishers in the country. Although artisanal fisheries are dominated by traditional fishing methods, it is still the dominant fisheries, in terms of total production and supply to the domestic market.

2.3.3 Artisanal fishing households are a heterogeneous group that depends on the status of the head of the household in fishing, the type of fishing activity, the level of diversification of household income, the location in relation to the resource base, and market access. Fishers, who are mainly men, can be divided into two groups, owners and workers. The largest number of the fishers are skippers and workers/crew members. They generally get half of the returns from sale of the catch.

2.3.4 Fishers typically spend at least 60% of their time fishing. Less than 25% of the fishing families have fishing as their only economic activity. The rest have other economic activities, mainly agriculture (67%) and trade (26%). There is also an important group of people who are involved in activities that support artisanal fisheries, such as boat building, net making, fish preservation and trading. According to the division of labour that exists in most of the coastal communities, women tend to work more in agriculture and men in fisheries. This division of labour ensures a diversified food base and survival strategy which is an important advantage for households which are engaged in fishing activities. The division of labour is not completely rigid: women are involved in transporting fish from the beach to the home or processing site. In some areas, while processing is generally handled by the men, women can also become involved in post harvest activities, including trading processed fish. Therefore, the project will seek to focus on the relevant needs of the beneficiaries.

2.4 Fisheries Institutions and Support Services

2.4.1 The Ministry of Fisheries (MOF) was created in early 2000 and is still in the early stages of creating an institutional capacity to meet its mandate. The Ministry is responsible for ensuring that fishing activities do not threaten the long term sustainability of the natural resources and that the benefits from these activities for the fishing communities and for the country are maximised. The Ministry has five directorates: Fisheries Administration, Fisheries Economy, Fish Inspection, Human Resources, and Aquaculture. Only Fisheries Administration and Fish Inspection have a presence in the provinces. Four organisations with administrative autonomy come under the responsibility of the Ministry: Small-Scale Fisheries Development Institute (IDPPE), Fisheries Research Institute (IIP), Fisheries School, and Fisheries Development Fund (FFP). One other government body, Maritime Administration, under the Ministry of Transport and Communications is legally responsible for safety at sea, as well as the merchant fleet, and in most areas handles licensing for artisanal fisheries. Those organisations that would be involved in implementation of the project are discussed below.

2.4.2 Institute for the Development of Small-Scale Fisheries (IDPPE): The mandate of the Institute is to promote the development of small-scale fisheries (artisanal) and improve livelihoods in fishing communities. The main activities include formulating policies and strategies for the development of small-scale fishery; and provision of extension to the small-scale fishing communities. It has four main departments: (i) Social Development; (ii) Fishery Technology, Equipment and Infrastructure; (iii) Planning and Statistics, and (iv) Department of Co-operation. The Institute has provincial delegations in Cabo Delgado, Nampula, Zambezia and Maputo, as well as representations in Inhambane, Niassa, and Tete. IDPPE is relatively small with a head office staff of 48, and some 166 staff working in the provincial delegations and representations. There are 19 officers with university degrees. It is strengthening of the services it provides. This project and the two other coast zone artisanal fisheries projects are seen as the main vehicles to facilitate this process.

2.4.3 The IDPPE has a shortage of human capacity in terms of senior staff with academic training and experience in investment and economic analysis, gender mainstreaming, community participation, marine environment and fish marketing. The field and provincial offices lack vehicles and operating funds. The extremely low level of salaries provides little incentive for staff to take on a heavier workload. It suffers from loss of good human resources to better opportunities in the private sector and NGOs where salaries are better. Under NAFP (financed by IFAD) staff only came to the project and to maintain the higher level of work demanded through a system of salaries top-ups. The IDPPE offices in Cabo Delgado cannot even pay regularly their staff and office bills, and maintenance of the office building is totally neglected. Strengthening its capacity is urgently needed in order for it to provide more effective services to the small-scale fishers.

2.4.4 Fisheries Research Institute (IIP): The mandate of IIP is to ensure the scientific management of fishery resources. Its major activity is assessing fishery resources and recommending optimal management options for sustainable exploitation. The Institute has 47 staff comprising 13 professionals and 6 technicians, the remainder being support personnel. It has only 3 biologists with experience in its core work of fish stock assessment. It operates mainly from its headquarters in Maputo, although it has four branch offices and laboratories in Beira, Inhambane, Quelimane and Nampula. Currently, IIP concentrates on industrial and semi-industrial subsectors, hence it has no branch office and has not conducted studies specific to the NFZ. Consequently the database is weak for the area. The institution has the scientific capacity to conduct useful monitoring, but it lacks the funding support required. The shortage of budgetary resources has constrained IIP from carrying out resource assessment and monitoring in the northern part of the country.

2.4.5 Fisheries Development Fund (FFP): The FFP is a government fund under the responsibility of the Ministry of Fishery that manages all donor/external funding for the Ministry or receives funds and transmits them onwards to the projects or programmes for which the funds are intended with the aim of stimulating private sector investment in artisanal fishing. At present all public investments in the fisheries sector are funded through FFP. It also receives 50% of the funds from revenues generated from fishing licences. In addition to the role of managing public sector funds on behalf of the Ministry, it has a responsibility to facilitate the provision of financial services to the sector and recently has been given the responsibility to become involved in direct credit delivery due to the limited availability of credit to the sector, and in particular to the artisanal fisheries. It has minimal capacity and almost no experience to handle this latter function. Nonetheless, it is now responsible for an FAO-financed line of credit for support to the 'Rehabilitation of Fisherfolk' affected by floods. FFP represents an institution that can serve as a conduit for credit funds earmarked for private operators in the fishing sector if it is strengthened through the provision of technical assistance and training.

2.4.6 Government Oversight for Fisheries Management. There are a series of committees and councils that currently provide Government oversight for the sector. The senior body is the MOF Consultative Council, chaired by the Minister and comprises the Directors of all agencies, including IDPPE. The Council is responsible for overseeing all ministry activities. At the provincial level, it is only in Nampula where a project steering committee has been set up under the chairmanship of the Governor to co-ordinate the activities of NAFP.

2.4.7 Private Sector Services to Fisheries: The private sector offers various services to the fishing community, including sale of fishing gear and related material, provision of ice in some areas, and marketing fish. The problem is that the private sector has been seriously

weakened by the civil war. Boat construction and repair appear to have been comparatively less affected by the civil war. Lanchas of up to 9 m long can be constructed in less than 60 days at a cost of less than US\$1 500 (Mt 25 500 000). Due to this artisanal capability, the country is able to replace old boats and to introduce new ones with minimum difficulty. GOM wishes to build upon the existing artisanal boat building capacity in order to enhance further the existing technical know-how.

2.5 Financial and Credit Services Institutions

2.5.1 The financial/credit sector in Mozambique is characterised by the low number of financial institutions and their extremely limited outreach, with most commercial banks and many of the other financial services institutions located in the major cities and towns. The sector can be divided into three categories: the formal financial sector, micro-finance institutions and the informal finance sector.

2.5.2 The formal financial sector is composed of the central bank, (BOM), 8 commercial banks, one credit co-operative, 20 bank exchange houses, 3 insurance houses and 3 other non monetary financial institutions. Commercial banks play a rather insignificant role in the fisheries sector as they concentrate on urban and middle-class markets. The only lending is to the semi-industrial and industrial sub-sectors. Most banks are oriented towards short-term loans with minimum risks. They also require tangible collateral to secure their loans. It is unlikely that during the lifetime of the project, the formal banking sector will be interested in the provision of support to artisanal fisheries and the traders who service the subsector. The terms and conditions of lending for selected commercial banks vary but the interest rates ranges from 18-28% as summarised in the table below: Some banks also charge, administrative costs of up to 5 per cent of the loan amount, to cover loan processing, documentation and cost of registering mortgage deeds, etc.

Bank	Period of Loan	Interest Rate %
BCM	180 days	22 to 28
BIM	180 days, 3 year for transport operators	18 to 22
BSTM	120 to 180 days for merchants, 180 to 210 for exporters	22 to 23
Creditcoop	Maximum one year	22 to 28
BF	Mostly up to 1 year	18 to 24

2.5.3 Micro-Finance Institutions. With the lack of services by the formal financial institutions to rural areas, several micro-finance institutions (MFIs) have developed to fill the gap. They are mainly run by non-government organisations (NGOs). There are currently 30 with about 16 000 active clients. Several MFIs are now registered non-bank financial institutions. These institutions, previously typified by small loans and short-term lending, have started to make larger medium-term loans of up to 5 years. Depending on the type of business, they may lend up to US\$50 000 (Mt 850 000 000) per loan, which is quite attractive for investment purposes. These institutions have been allowed to undertake micro credit activities, but not collection of savings and on lending. As a result all the micro-credit programmes undertake a credit driven approach rather than a savings driven approach. The major micro-credit schemes and programs are administered by CARE, Society for the Support of Small-scale Investment Projects (GAPI), World Relief, and the Mozambique Association for Rural Development (AMODER). The activities and performance of selected MFIs are discussed below

2.5.4 AMODER was created as a means of continuing the activities of support to the rural

sector initiated by AGRICOM – parastatal marketing organisation dismantled in early 1990s - with the support from a group of Swedish NGOs called Practical Solidarity (PS) who donated funds. Amoder's experience is very relevant for financing suppliers of fishing materials as well as for refrigeration units. It has credits in the provinces of Inhambane and Cabo Delgado. In Cabo Delgado they lend to large-scale suppliers with funding from Oxfam (Belgium) as a part of the food security project. The strategy was to increase fish production through the provision of fishing materials on credit. Amoder is now trying another approach by increasing the demand for dried fish by loans to wholesalers to buy larger volumes. AMODER as an institution has several advantages: (i) it is a profitable NGO, not subject to taxes; (ii) it maintains a low institutional profile; (iii) it can offer diversified services to customers; (iv) it has experience of working in rural areas; and (v) it has experience of working with international organisations.

2.5.5 CARE is an international NGO which started activities in 1997 by introducing solidarity groups or trust groups. The CRER project previously known as the FISH project, started with the intention of financing fishers but because of the high individual needs of the fishers, focus was switched to providing credit to fish traders and other small commercial activities. This approach met with success when dealing with the so-called confidence or solidarity groups comprised mainly of informal sector vendors and traders. The Dutch government adopted this approach, focusing more on the inland activities of traders and producer associations, in collaboration with CLUSA, an American NGO.. CARE was specially drafted to implement the micro-credit component of the Nampula Artisanal Fisheries Project funded by IFAD, after the Banco Popular de Desenvolvimento (BPD) dropped out after its privatisation. In the IFAD project area, so far 58 groups have been formed of which 41 have benefited from credit. Till June 1999, they had spent about 1.4 million meticaís, by way of loans. About 10 per cent of the members are fishers and 7 per cent are women. Portfolio at risk (where there has been a delay of more than 30 days in repayment) was 13 per cent of the total.

2.5.6 Community Credit Fund (FCC) - World Relief (WR) is currently the largest and most successful micro-finance programme in Mozambique. It has started a micro-finance programme in Nampula, which is funded by United Nations Capital Development Fund (UNCDF). To date their methodology has been limited to village banking in urban and peri-urban areas. Village banking loans were started recently in Nampula with about 10 groups averaging 22 members. FCC is looking at diversifying its products and is considering individual loans similar to FFPI type loans to fishers, as well as traders and distributors along the Nampula coast.

2.5.7 MFIs have started to open branches in the remote provinces and lend to non-traditional sectors such as fisheries. They use different loan security means as alternatives to tangible collateral, which small-scale entrepreneurs and fishers lack. For instance, they are willing to consider joint liability arrangements in which a group of people agree to guarantee a loan taken by a member of the group. This flexibility by the micro-finance institutions has created an opportunity for increased investment in the artisanal fisheries sector and needs to be supported strongly. It is intended to involve these institutions in the project for credit delivery given their capacity, experience and interest to assist small-scale operators.

2.5.8 Informal Financial Sector. Two common types of informal credit service are found. The most common are the money lenders who provide short-term loans for working capital requirements at high interest rates. They have flexible lending policies and depend more on

credit history and social pressure and less on collateral security. The second type is the local rotating savings and credit groups, referred to as *Xitique*. Under the *Xitique* is the traditional revolving credit and savings fund, all members contribute on a daily, weekly or monthly basis and one member rotationally receives the entire pot. Formal associations among fishers are presently very rare. CARE has introduced in Nampula, under its Credit Fund for Rural Entrepreneurs (CRER) project; an extension of *Xitique* concept which brings in flexibility by allowing members to borrow when they want to, and for savers to benefit from interest paid by the borrowers.

2.5.9 The GOM has created eight sector specific funds to support development in the relevant sectors by channelling GOM and donor funds to the public institutions involved in development activities, as well as to the private sector operators. The two funds that are important to the fisheries sector are the Fund for Fisheries Development (FFP) and the Small Industries Development Fund (FFPI). The FFPI, a semi-autonomous financial institution, is one of the few institutions, which have built up capacity and through the NAFP, the experience to provide credit services to the artisanal fisheries. It has approved credit to 300 clients in fisheries or commercialisation of fisheries that have so far been serviced as scheduled with only four considered problematic. It lends on commercial terms with loan sizes ranging from USD 2 000 - 3 000. FFPI has performed well in the NAFP. It is another institution, which can be used for credit delivery.

2.6 Development potential and constraints

2.6.1 The fisheries resource base in Mozambican seawaters is still large (FAO, 2000) and lends itself to sustainable exploitation. The available statistics show that there is a great resource potential to be developed in the areas 5-20 m deep and in the drop-off area 20-200 m. The potential yield established by stock assessment set a sustainable limit of 9 000 MT for small pelagics in Cabo Delgado, where the current catch is about 2 200 MT. Other resources such as *Pristipomoides* (pink-snapper, a high valued large demersal species) from the area are said to be almost virgin. Due to the narrowness of the continental shelf, tuna migrate close to the shore. Preliminary estimates put the potential yield at 7 000 MT. Shrimp is available throughout the region. Lobster, another valuable resource, is only exploited to its maximum in locations close to markets. The resource is currently unmanaged and should be changed from a spear fishery to a trap fishery for added value. Overall the total resource for Cabo Delgado is 32 000 MT against a current production of 4 500 MT. Exact statistics cannot be extrapolated for the 3 districts of Northern Nampula but it can be inferred that the production there only represents approximately 14% of the available resource.

2.6.2 Mozambique has also a hard-working fishing community. Many of the artisanal fishers are willing to improve their activities, provided they have the opportunity to buy basic fishing equipment, better gears and new boats together with training in new methods. This is considered as an important asset as it eliminates efforts that might have been needed to convince fishers to change their fishing habits. An equally important asset is the availability of an eager private sector that might invest in the artisanal fishery business, such as its marketing. Many entrepreneurs expressed their enthusiasm by indicating innovative, but proved, ideas as to how they would collect, assemble and market fish products. They just need some financial support.

2.6.3 The major problem faced by fishers is access to good markets, which inevitably means that most of their catch has to be dried, giving lower returns. Consequently, few traders invest in fresh fish trade. The private sector lacks the necessary finances to invest in ice plants and cold storage facilities. Finally, in many places visited individual fishing folks could not afford to pay for the basic equipment. These constraints are keeping the artisanal fisheries sector depressed and must be resolved by making available credit facilities at an affordable cost.

2.7 Fisheries Sector Development Policy and Strategy

The Fisheries Master Plan (1996-2005) provides the framework for identifying development goals and strategies that the country follows and goals that should be achieved during the medium to long-term. It indicates three major sectoral objectives: improvement of domestic fish supply; increase in foreign exchange earnings; and improving the standard of living of fishing communities. Artisanal fishery is expected to play a major role in the increased supply of fish to the domestic market and raising incomes of fishing communities by creating employment and increasing their incomes. This is expected to be achieved by stepping up the exploitation of fishery resources accessible to artisanal fishery on a sustainable basis. Currently, increased and sustainable exploitation can be achieved by increasing offshore fishers, particularly in the northern areas where there is no conflict with the industrial fleets. The Fisheries Master Plan provides a conducive policy framework for the artisanal sector and for project initiatives.

2.8 Donors supported Activities

2.8.1 The most important ongoing fishery development programme is the Nampula Artisanal Fisheries Project (NAFP), which has been under implementation since 1995 with the assistance of IFAD and OPEC Fund. The project involves the provision of foreign exchange for input supply, adaptive research and extension services, improved fisheries management and provision of credit to fishers, micro-enterprises, and infrastructure development component, comprising roads, water supply and primary health care facilities. NAFP being the first integrated fisheries project in Mozambique, was intended to serve as a learning and development process as well as institutional strengthening. In the planning process for the new artisanal fisheries development programme, retrospective analysis was made to draw lessons that would guide future interventions. This process, which included an IFAD interim evaluation team and IDPPE concluded that it is not been easy to ascertain the impact of the project on the fishers and communities. Nevertheless, a number of lessons have been drawn from the project that are particularly pertinent for the design of the planned marine artisanal fisheries projects.

2.8.2 The main lessons drawn relate to: the use of an integrated approach to fisheries development; the need for secure markets, and access to inputs and financial services; market-led supply of fisheries inputs; creation of co-management committees, and savings-based approaches, drawing on traditional practices and the need for incentive payments. The integrated approach, tackling fisheries problems from a community perspective allowed the project to identify more effectively the constraints and opportunities in the artisanal fisheries subsector. The project has also shown that the take-up of proven technologies depends on secure markets, and access to inputs and financial services. For sustainability of financial services, low-level savings-based approaches, drawing on traditional practices, have proven successful, as have medium-scale loans by FFPI for gear purchases.

2.8.3 The creation of community-based co-management committees was critical in introducing sustainable resource management practices, but sustainability of these committees depends on the creation of a structure to facilitate the actions taken by them. It is also evident that forming these committees is linked to community development and mobilisation processes. The financing of social infrastructure such as water points was useful to gain confidence of the communities and a positive working atmosphere to introduce project initiatives such as co-management committees and technology demonstrations. It is important that the project's efforts aim at supplementing the programmes of the line ministries. Finally, with the low level of salaries in IDPPE and Government, combined with the widespread donor-initiated practice of salary support, a system of incentive payments is essential if one is to retain good staff and encourage them to perform effectively.

2.8.4 Other development programmes in artisanal fisheries introduced with the assistance of IDPPE during 1997 and 1998 include: Rehabilitation of Fishing and Fish Marketing in Lake Niassa; Development of Artisanal Fishery in Palma District; Economic Promotion of Artisanal Fisheries, and Rehabilitation of Small-scale Off-shore Fishery Capacity – Inhambane Province. These projects, which are small, costing less than US\$1 million, are newly under implementation. Their impact has, therefore, yet to be assessed.

2.9 Rural Poverty in Mozambique

2.9.1 Mozambique has a head-count incidence of absolute poverty of about 70% national-wide, and over 72% in rural areas. The UNDP Human Development Report has ranked Mozambique's Human Development Index at 169 out of 174. The Government's Interim Poverty Reduction Strategy Paper has set out to reduce the incidence of absolute poverty by 30% by 2009. The strategy emphasises the promotion of economic stability and broad-based high growth; improved access to education, water, health and sanitation; development of rural infrastructure; promotion of employment; protection of vulnerable groups. The development of the artisanal fisheries subsector is seen as an integral part of this strategy.

2.9.2 In addition to widespread poverty, Mozambique is facing an HIV/AIDS epidemic., which the adult prevalence estimated in 1998 at 14.5% is also negatively affecting the productive segment of the population and will therefore result in low productivity for subsistence producers. The poor rural population is unable to cope with such epidemics as aids, and other prevalent diseases, especially malaria, and water borne infections due to lack of basic infrastructure such as potable water, sanitation and low incomes.

2.10 Gender Issues

2.10.1 Women in Mozambique constitute over 50% of the population. They suffer from high illiteracy rates, especially in the rural areas. The majority is concentrated in the informal sector and has little access to formal credit, skills and business training. The GOM is drafting a National Gender Policy. In the north, most communities are matrilineal, inheritance and ownership of assets is woman to the male child. The legal situation of women is ambiguous as both the customary laws and civil laws exist parallel.

2.10.2 The women's involvement in the sector includes fishing for subsistence using home made nets or piece of cloth, processing and drying of fish. They are also involved in some seasonal agriculture activities. Some are involved in buying and selling fish, and renting fishing gear and storage areas. Women provide most of the food for the household, whereas men provide income, through commercial fishing, for other services and purchase of commodities. Thus, the participation of both men and women in the proposed project is aimed for improved family livelihood. The problems facing women's fishing activities are the insufficient catch, inadequate fishing equipment and gear, storage and processing facilities. Some women have identified the need for credit to enhance their economic activities, especially for female heads of households. Women's participation in community planning and decision making is limited and therefore their needs are usually not addressed.

3. ARTISANAL FISHERIES SUB-SECTOR

3.1 Salient Features

3.1.1 There are about 74 000 marine artisanal fishers in the country, producing about 80,000 MT per year, valued at over USD 50 million, almost all of which is for national markets. About 63% of the produce is third category fish, 27%, second category fish and the remainder first category fish. Since there are no cold storage facilities, fishers have to dispose of their produce right away. Whatever is not sold is consumed or dried by the fishers.

3.1.2 The artisanal fleet numbers some 11,000 - 12 000 vessels operating in about 640 fishing centres. About 70% are canoes and the remaining 30% are wooden 5-7 m sailing crafts "lanchas". Only 1-2% are motorised. In addition to the fishers who use boats, there are about 19 000 who collect fish along the shoreline. The boats are generally old and inadequate for efficient fishing, hence fishers are restricted to fishing within the shallow inter-tidal zone. the few fishers that have appropriate boats lack the necessary skills, the right gear, and the technical capacity to implement new fishing methods. They do not have navigation devices or fish detection systems. Besides, the operators have little security in their frail boats and do not want to venture far from the shore, mainly because of the slowness in bringing fish to shore. This is generally due to lack of boat motorisation. They also lack basic services such as the supply of ice, fishing gear and credit to finance investment and operational expenses.

3.1.3 In Cabo Delgado area, the fishing communities have a long tradition with sailing boats. However, they need some conservation equipment on board and quick transport between the far-away fishing grounds and their landing sites for preserving freshness of their products. On the other hand, fishermen in Northern Nampula have already a good experience with in- and out-board motors but lack spare parts and preservation facilities at sea. Thus, slightly different approaches are needed between the two provinces.

Typically, the wooden "lanchas" are planked with poor quality softwood over natural round frames. In most cases, the construction is held together with ungalvanised nails and is constantly requiring maintenance. This causes a great loss of fishing time, weakens the

security of the fishers and discourages them from venturing far from the shallow water. Many vessels leak so badly that unless tended carefully would flood on their moorings overnight and have to be pushed to shore to be bailed out before setting out for the next trip. The “lanchas” do not have the capacity to utilise the stocks available in the region, without engines. The canoes have even less capability due to their inability to carry gear. Although the canoes and lanchas are low-priced and affordable for the local artisanal fishers, they have little future in a developing fishery because of their severe limitations. The main fishing gear used are beachseins, gillnets and handlines. Beachseining is more prevalent in areas where shrimp is available, and handlining close to the coral reef. Traps and fishing spears are also used to a lesser extent.

3.1.4 In general, traditional fishing practices by artisanal fishers have been in conformity with sustainable use of the resource and the environment. Lately, some harmful practices, such as the use of mosquito net and polyurethane bags in beachseins, are leading to excessive catches of certain immature species of pelagics and demersals. A dangerous practice of poisoning fish using pesticides has also been reported in some areas in the northern part of the country. Although this is not a general practice as yet, it is nevertheless important to control and eradicate such illegal activities by raising fishers’ awareness of the negative effects that such a practice can have on them, on the consumers and on the environment. Involving fishers in the management of the resource would help to curb illegal fishing practices.

3.2 Constraints to Development of the subsector

The major constraints to development include lack of basic infrastructure, such as primarily roads to landing sites; long distances to markets; lack of electrical power in most areas away from Pemba and Nacala; low level of technology (frail boats due to age and weak materials) in the fish production sector; low level of disposable income for investment in improved technology such better boats and fishing gear; and no tradition of working away from the shallow water due, in part, to the frail nature of boats. Fishing communities will need credit support for various purposes, which can be broadly classified as fixed capital, working capital and consumption needs. In artisanal fishing, liquidity generated by previous earnings rarely matches the current expenditure. Any development project that seeks to improve their standard of living has to address the question of credit. The proposed project has been designed to attempt to address each of these identified constraints.

3.3 Strategies for artisanal fisheries Development

3.3.1 Rapid development of artisanal fisheries is one of GOM priority objectives. GOM has adopted the following strategies: (i) Provision of fishing equipment and new boats by increasing boat building capacity and stimulating investment in such production; (ii) increase of catch volumes by adapting boats and fishing gear to the available resources that will be based on findings made by IIP and appropriate TA support; (iii) Reduction of post-harvest losses by improving fish handling and processing, promoting the use of ice and cold storage; (iv) Development of a proper fisheries management systems that are geared to resolve overfishing problems, in co-operation with the artisanal fishing communities;

(v) Support the fishing communities to acquire suitable means and credibility for fisheries activities co-management, by providing training on adapted technologies related to fishing devices, participatory decision making, environment protection and gender consideration; (vi) Stimulation from GOM by providing an extension service to transfer improved fishery and fish handling technology, by supporting fish processing activities and cold storage facilities that can improve substantially fish marketing by upgrading the infrastructure; and (vii) Commitment by GOM to creating a favourable environment and legal frame for stimulating investment by fishing communities, fisher traders and non-fishing links from the private sector, and to raising external funds to support investment in artisanal fish production, local processing and regional marketing. The proposed project will contribute to operationalising these strategies

4. THE PROJECT

4.1 Project Concept and Rationale

4.1.1 The proposed project will contribute to the GOM poverty reduction. In the Interim Poverty Reduction Strategy Paper (I-PRSP, 2000) the GOM has set a target to reduce poverty by 30% from 70% (in 1997) to 50% by 2009. The I-PRSP has identified the promotion of artisanal fisheries as the main strategy for increasing incomes of the rural poor situated along the coast, employment generation, economic growth and community participation in preserving the natural resources. Artisanal fisheries has been identified as a priority for developing the economies of the northern provinces that is full of potential but has not yet been developed by GOM. This strategy is specifically designed for targeted intervention for rural development, promoting better nutrition amongst the rural population. The estimated average annual consumption of fish in Mozambique is about 6.5 kg per capita.

4.1.2 The single strongest factor for the proposed project is the vast amount of untapped fish resource. The currently 86%, untapped fish resources in Cabo Delgado and Northern Nampula Provinces give ample scope for developing artisanal fisheries. The development of under-utilised marine fisheries resources by its indigenous people will create the benefits of food security, health and education, and employment. Besides, it will also preserve one of the World's few remaining pristine environments containing the unspoilt coral reefs of the outer islands and the rich habitats of mangrove swamps on the continental fringes. The proposed project seeks to address the identified constraints by providing a basis for sustainable fish production in the NFZ through provision of improved fishing technologies and promotion of fish marketing. The main thrust of the proposed project is to enable artisanal fishers to catch fish farther in the continental platform where these resources are known to exist. This approach is in line with the Fisheries Master Plan which calls for equipping artisanal fishers with appropriate boats, suitable fishing gear, and training in new methods of fishing, providing ice and fuel as well as back-up services for boats, providing repair and maintenance services, and organising a comprehensive marketing plan.

4.1.3 The development of fisheries would be undertaken by fishers themselves, who would actually catch fish offshore, and by entrepreneurs who would purchase and deliver the final product to the market. These actors need support from GOM, at least in the early years of development. The design of the project is based on participatory approach as it builds on the experience and fishing techniques of the indigenous fishers who are presently engaged in fishing near the coastline. During project identification, preparation and appraisal missions, wide consultation was undertaken with these fishers, fish traders and processors, boat

builders, net makers and suppliers of fishing equipment and materials, NGO community, government officials, as well as donors operating in the sector. The project includes measures to address problems of access roads, potable water, fish landing and preservation in form of improved roads, rehabilitating boreholes and constructing new ones as necessary, and credit for improved boats, gear, fish preservation, transport and marketing.

4.1.4 The design also builds on the experiences and lessons drawn from the ongoing Nampula Artisanal Fisheries Project financed by IFAD in Southern part of Nampula province by targeting the fishing communities. The executing agency, which is also implementing the NAFP, will commence sensitisation of the beneficiary communities and group formation activities before the start of the project. The project drawing on lessons learnt from the NAFP incorporates approaches such as the use of mobile extension teams. The project will also use the same National Co-ordination Committee and Provincial Co-ordination Committee in Nampula Province. The project will strengthen these institutions to effectively undertake their functions.

4.1.5 Eligible beneficiaries will be required to contribute 10% towards the equipment and inputs that they will obtain on credit. The project will organise the beneficiary communities into functional committees to enhance their participation in the project. All categories of beneficiaries will be represented in the Co-ordination Committees. Their representatives will be members of the oversight committees that will oversee the implementation of the project and ensure the achievement of the overall objective. In addition, training sessions and workshops will be organised during implementation to create fora for exchanging views and incorporating the concerns of the project beneficiaries and other stakeholders in order to take appropriate corrective measures as necessary during the implementation of the project. The use of NGOs in mobilising beneficiary communities has been preferred to Technical Assistance and foreign consultants because of their good knowledge of the local socio-cultural conditions and location in the rural areas.

4.2 Project Area and Beneficiaries

4.2.1 Project Area: The project area includes the whole of Cabo Delgado and the Northern part of Nampula Province. Project interventions would be implemented in the six coastal districts of Cabo Delgado, plus Ibo Island and the three northern coastal districts i.e. Memba, Nacala and Mossuril in Nampula Province. The entire coastline is characterised by a very narrow shelf. At its widest, it is only 22 km, and for much of the coast, the width is only 2 to 3 km. In Cabo Delgado Province there are 282 km² of mangrove swamps; 525 km² of coral reefs; and an archipelago of outlying small islands. The continental shelf has 481 sq. km of tidal flats and 2 059 km² of sandy shallow water 0-20 m deep. There is a further 852 km² of continental slope between 20 m and 200 m. Similarly in Northern Nampula the areas are: 48 km² of mangrove swamps, 125 km² of inter-tidal areas, 453 km² of 0-20 m sandy shallows, 129 km² of coral areas, and 599 km² of 20-200 m continental slope. Typically the weather is very favourable for most fishing activities, the region being sufficiently far north, therefore away from the main cyclone belt. The average yearly temperature is 26-27° C and the sea currents generally in a weak southerly direction. The weather is fine for fishing for about 150-220 days per year. Most villages are without power and have poor water supplies.

4.2.2 *Population*: In 1998, the population of Cabo Delgado was estimated at 1.41 million or about 8.6% of the total population of Mozambique. The total population of the three districts in Northern Nampula was 365 400 in 1997. The most densely populated place is Pemba City (813 per km²). The mainstay of the project area's economy is agriculture (crop production, forestry and fisheries). The economic backbone of the coastal communities is fisheries.

4.2.3 *Beneficiaries*: The target group for the project is selected fishing communities in the project area. According to records available in IDPPE, these communities include approximately 20,000 fishers and their families, or about 100 000 people. IDPPE statistics for 2000 state that there are around 6 259 permanent fishers in the Cabo Delgado Province alone along with 2 711 part-time fishers. In the 3 coastal districts of Northern Nampula there are 8 435 permanent fishers and 1 750 part-time. The fishing community consists of fisher families, fishing centres and those villages adjacent to and using the fishing centres. When one includes non-fishing families who live in the communities where the fishers live – the total target population is around 500 000 people. Some project activities would benefit the fishing community as a whole; the rest are directed at fishers' families within these communities, fish traders, boat builders and suppliers of fishing gears and materials.

4.2.4 Support services to artisanal fishers in the project area are poor or lacking entirely. There is little assistance regarding safety at sea and rescue services. The Maritime Department (SAFMAR), who carry out mandatory safety checks, and conduct rescue services have few facilities in the Northern Fishing Zone (NFZ). IDPPE does not have sufficient trained staff in the area. Therefore, there would be need much training and fresh recruitment in order to respond to the requirements of the sector. The IDPPE office in Pemba also suffers from serious lack of basic facilities such as office space, vehicles and equipment. The IDPPE in Nampula is slightly better equipped as it benefited from the NAFP. There are two processing plants, one in Ibo Island and another in Mocimboa da Praia which freeze fish for export. There are few traders producing ice mainly for bars and restaurants, but also sell to fishers. Furthermore, there are mechanics that provide maintenance services for cars and motors in the major towns such as Pemba, Nacala and Mocimboa da Praia. In addition, there is a new freezing and cold storage facility in Palma constructed by IDPPE completed in mid-2001.

4.2.5 Inadequate roads have been cited as a major obstacle with many landing sites cut off from the interior spine road during the rainy season (December-April). As is commonly the case, the support needed in fisheries development will be feeder road improvements to connect fishing villages to main roads. A feeder road rehabilitation programme is to start this year with the assistance of NORAD, which will also cover some access roads to fishing communities. Only those roads not included under the NORAD support are to be covered. Potable water supplies in the project area are either inadequate or unavailable, and this is recognised as a constraint to fisheries development in the long run.

4.3 Strategic Context

Strong and broad-based growth with poverty reduction is the main goal of economic policy. The Fisheries Master Plan is the vehicle for Government to promote initiatives along the coast in support of improved economic and social development in fishing communities and to help IDPPE extend its coverage and strengthen its services to support these communities. The project is one of three that will form part of the Government's investment programme for artisanal fisheries along the Indian Ocean.

4.4 Project Objectives

The sector goal is to increase incomes of fishers' and their communities, fish traders and input suppliers thereby contribute to reduction of poverty, enhance food security and marine environment conservation and protection. The project objective is to increase fish production by supporting artisanal fishers in the project area by enabling them to catch, process and market fish more efficiently.

4.5 Project Description

4.5.1 The project would comprise three main components, viz., (A) Provision of Credit to boost fish production and promote fish marketing; (B) Provision community infrastructure; and (C) strengthening institutional capacity. The main outputs are expected to be 8 800 tonnes incremental fish catch per year, improved community infrastructures and strengthened fisheries institutions as well as beneficiary communities. The summary description of these components and the main activities to be financed in order to achieve the envisaged outputs is given below.

A) Credit to boost Fish Production and marketing

(i) *Credit to Boost Fish Production*

4.5.2 The project will mainly target artisanal fishers, boat builders, boat owners, net makers and input suppliers. The main expected output will be the wide adoption of improved fishing boats, fishing gears and methods including preservation. The project will provide credit to artisanal fishers to adopt improved fishing technology to enable them to fish more efficiently. Boat builders and net makers will also be provided with credit to expand their operations in to ensure availability of these materials to the fishers. Over the implementation period, the project would provide credit to fishers to purchase 100 wooden boats with motors, 300 refurbished 7 m wooden boats, 110 new wooden boats, 60 GRP 7 m boats, all with sailing facilities. The new wooden boats and the GRP 7-m boats would also be equipped with outboard motors. The project will also provide funds for fishers to procure fishing gears.

(ii) *Credit to Promote Fish Marketing*

4.5.3 The principal activities will involve supporting entrepreneurs and traders through the provision of credit to establish ice plants and acquire transport facilities including working capital needs. Insulated holding facilities for fish and ice will be provided to individuals or groups around landing sites. The project will make funds available for private traders and entrepreneurs to establish ten 5-tonnes capacity ice plants, procure five refrigerated trucks and 10 pickups. These quantities are considered minimal for the wide project area and the potential market area. Fish traders will also be provided with finance to purchase insulated boxes. In order to solve the present constraint related to the lack of packaging material, funds will be provided on credit for private entrepreneurs to establish a simple plant for producing fish packaging material.

B) Provision of Community Infrastructure

4.5.4 The project will provide funds to improve community infrastructure (mainly access roads from landing sites to main roads, potable water supply – wells, pumps, fish reception and cleaning). The project will finance the construction of one fish handling complex at Memba consisting of a fish reception area, cleaning processing and two fish drying platforms. The objective will be to improve fish reception, fish cleaning, fish processing into salted, dried and smoked products, packaging, adequate conservation (cold storage, insulated boxes). The project would stimulate the business venture in fisheries at the main landing sites by creating suitable conditions for improved processing and marketing of fish and fish products.

4.5.5 The project will improve 15 landing sites which will be managed by the fishing communities. In addition, funds would be provided for improving potable water supply with the participation of beneficiary communities at the sites. These centres will be developed away from existing urban areas. In this regard, initially efforts will be focussed on developing two fishing centres, one around Palma for Cabo Delgado province and another around Memba for Northern Nampula province to act as demonstrations for replication in the other sites. In order to improve the transportation of fish and other inputs, spot improvement of about 220 km of key access roads to fishing villages will be undertaken under the project. Potable water supply will be improved through the rehabilitation of about 20 wells and the establishment of 40 new wells. Finally, the project will provide funds to support local authorities by rebuilding the market infrastructure and securing water supply at two important fish markets: one in Montepuez, Cabo Delgado Province, and the other at Nampula, in Nampula Province.

C) Institutional Capacity Strengthening

4.5.6 The strengthening of capacity will involve three sub-components, namely: (i) project co-ordination unit, (ii) implementing institutions and (iii) beneficiary communities

(i) *Project Co-ordination Unit*

4.5.7 The project will provide funds to establish, within IDPPE, a Project Co-ordination Unit (PCU). Funds will also be provided for the PCU to be supported by TA personnel as follows: 36 person-months of a Marine Biologist/Environmental scientist, 24 person-months each for Gender Expert and Community Participation Expert, 18 person-months for a Marketing and Processing specialist, and support staff consisting of a Statistician, 3 clerks and 3 drivers. The project would also finance the provision of two 4-WD vehicles, 5 computers with printers, office furniture and incremental operating costs. The will provide funds to hire the services of boats whenever required.

(ii) *Implementing institutions*

4.5.8 The project will strengthen the operational capabilities of IDPPE, IIP and support the establishment of DPP. To this effect, the project will provide training, technical assistance, transport facilities, and office and other equipment as indicated below. The IDPPE will be strengthened through training that enables staff to support the implementation of the project in the field. Funds will be provided for three staff members to obtain BSc. degrees in fishing technology, rural development, and marine law. Six staff will be trained in gear technology.

In addition, IDPPE will be provided with two four-wheel drive vehicles to enable field visits by the headquarters' staff. The project will finance the construction of a new IDPPE office at Pemba and equip it with office equipment and furniture. In addition, the IDPPE delegates in Pemba and Nampula will be provided with two 4-WD drive pick-ups and six motor cycles each to improve staff mobility. This is considered minimum for the wide project area. The project will support IIP to establish an office in Cabo Delgado Province within the new IDPPE building. The IIP will be provided with funds for two MSc. scholarships in resource assessment and monitoring, computers, and mobility. Funds for this purpose will be drawn from the project co-ordination support. In order to strengthen the credit management capability of FFP, the project will provide funds for 30 person months inputs of a Credit Specialist; and one computer set. FFP would also benefit from the training that would be provided to its entire staff by the Credit Specialist.

4.5.9 Three studies market studies will be undertaken under the project with the assistance of the TA personnel. One study would consist of the development of an appropriate methodology for catching deep-water demersals in Northern Nampula. This is necessary given the fact that the shelf is extremely narrow compared to Cabo Delgado, therefore less amenable to shallow water fishing practices. The second study will look into the lobster exploitation situation with a view to defining management regimes for sustainable stocks and maximised export values. The third study will target mostly fish product promotion to successfully develop marketing.

(iii) *Beneficiary communities*

4.5.10 The project will provide funds to recruit National NGOs specialising in community mobilisation and training, to assist the PCU in define target groups and collect data on ethnic divisions. In addition, the project will recruit National consultants to undertake socio-economic and gender analysis of households in fishing communities to determine their sources of livelihood, daily schedules for different household members and involvement in fish-related activities, the social and cultural nuances that determine women's access to resources and their role in decision making. This process would provide information on those elements of the target group which are potentially at risk of being marginalised, including in particular women and workers/crew members. The PCU will then promote the project's objectives and build cohesive organisations that can respond to project inputs. The objective will be to organise and prepare fishers for the purposes of receiving technical know-how on efficient fishing, obtain appropriate boats and fishing gear on credit and initiate co-management of the fish resource together with the relevant authorities.

4.5.11 The project through the TA Participation expert will mobilise and organise the target beneficiaries into associations by function to facilitate their access to credit, inputs, market their produce and engage themselves in co-management of the fish stocks. The communities will also be organised into committees by function such as planning and management committees, women's committee. All committees will have equal gender representation. The purpose of the different committees will be to participate in the planning and implementation of the project at the local level thereby enhancing sustainability. The beneficiary communities will be organised and trained to enable them to better manage the infrastructure provided by the project (fish complex, landing sites, water wells), plan and implement community development projects. Training of the members of community in leadership, negotiation, and planning and decision-making skills will also be conducted.

The project will also support HIV/AIDS awareness raising, safe drinking water, community hygiene and sanitation, through the PCU in co-ordination with the relevant Ministries.

4.6 Production, Markets and Prices

4.6.1 Production: The bulk of the landing will be first, second and third category fish. The incremental project output at full development is estimated as follows:

Summary of Incremental Project Output at Full Development (MT)

Type of Boat	Type of Fish ^{a/}			Total Incremental Prod.
	1 st Category	2 nd Category	3 rd Category	
GRP Canoe Sail	150	-	2 250	2 400
Improved Wooden-Boat with Sail	500	500	-	1 000
New 7 m Wooden Boat with Motor	253	1 100	1 947	3 300
GRP 7 m Boat with Outboard Motor	1 800	-	300	2 100
TOTAL	2 703	1 600	4 497	8 800

^{a/} These would largely consist of: 1st category: pristipomoides, groupers, king fish, emperors and tuna related species; 2nd categ. Mackerels, seganus; 3rd category: all small pelagics mainly decapetus (horse mackerel) and shark

4.6.2 The production estimates are based on catch rates characterised by similar fisheries in the region as are the number of fishing days per year. Daily catches are considered conservative. Progressive fishers already obtain much higher production levels. The assumption of an average of only 200 fishing days is also conservative as the generally calm seas in the project area provide fishing opportunities practically the whole year round.

4.6.3 Markets: Informal petty traders who purchase fish either fresh at the landing site or already dried at the artisanal fishers' dwellings dominate fish marketing. In the northern part of the country, considerable fish drying is carried out on the islands and traders buy fish in these areas and transport it to the major markets. Generally, the marketing chain is made up of fishers, wholesalers and retailers. Wholesalers buy and often process fish at the landing sites until they stock between 100 and 1 500 kg and then transport it in hired pick-up trucks to the major markets. Retailers buy dry fish in 50-kg sacks from the wholesalers and sell it in small lots of 50 to 150 g to consumers. Marketing of fresh fish occurs primarily near the landing sites and where there is an outlet for high value fresh fish. Usually fresh fish is transported unchilled on bicycles or in pick-up trucks to the closest market.

4.6.4 Given the relatively low purchasing power of the population, domestic demand is high for low quality products such as dried and salted small pelagics. Demand for fresh first category fish is limited given the high retail price in many urban centres. However, since consumer preference is for fresh fish, demand for high quality fish is bound to increase significantly in response to income as the economy grows and population growth. For these reasons, the domestic market's prospects for fresh fish are promising.

4.6.5 The merchants report a strong demand for fish in Mozambique both for the domestic market. Presently, over 10 000 MT of third category fish (horse mackerel) imported in frozen form from Namibia is selling well and filling the deficit in domestic supplies. The reason that this fish is selling well is because it is relatively low-priced (US\$0.40-0.45 per kg), is well presented and supplies are regular. According to traders, there is a large demand for dried fish, which has to be yet satisfied in the hinterland, and in the neighbouring countries, should

entrepreneurs and merchants wish to invest in the dry fish business. Therefore, the project output of the third category fish would have no difficulty in finding profitable markets.

4.6.6 In Pemba, Ibo Island and Mocimboa da Praia merchants have created facilities to freeze the higher quality fish for exporting. Not obtaining enough throughputs, they are struggling to survive. The entrepreneurs acknowledge that the lack of fish catching capacity is the major contributing factor restraining the development of markets. The inland markets are also under-supplied especially in fresh and frozen fish. Improvements to post harvest infrastructure would facilitate the domestic marketing of first category fish. There is significant scope for market development in Mozambique mainly due to demand trends and existing production potential. Investments in small-scale as well as in large-scale fish marketing are considered profitable for all grades of fish products, provided the supply of fish becomes reliable. At current prices, locally marketed fresh fish could be competitive vis-à-vis the Namibian horse mackerel, if investment in ice production, means of transport and refrigeration facilities are provided. The private sector has expressed a willingness to invest in handling and processing facilities if supplies could be ensured through an enlarged catch.

4.6.7 **Prices.** The price of fresh fish at the landing site varies from area to area. The prices on average are US\$1.30 per kg for first category fish, US\$0.65 per kg for second category and US\$0.45 per kg (varying between US\$0.40–0.50 per kg) for third category fish (equivalent to Mt 27 040; Mt 13 520; and Mt 9 360 respectively). These prices may increase two- to three-fold in the main urban centres. Fresh first category fish price ranges from US\$1.80-2.50 per kg in urban markets. The market for first category fish is small in Mozambique but there is now a big move to export first category fish. The price of dried fish, which is mostly third category fish varies between US\$0.80 to 1.20 (Mt 13 600 – 20 000) depending on quality and type of fish. All fish, regardless of its grade is dried if outlets for fresh fish are bleak.

4.6.8 The poor state of roads in the project area has effectively ruled out the development of fresh fish trade except for immediate inland centres. Local entrepreneurs are striving to establish fresh fish outlets in Nampula, and Montepuez. Good quality fish that would normally raise US\$2-3 (Mt 34 000 – 51 000) per kg. is presently dried and sold for less than US\$0.75/kg. In general no difficulties for disposing of the project's output are foreseen because the high quality and regular supply of fish would attract many entrepreneurs to invest in fish processing and marketing. Many investors have enthusiastically expressed their willingness to be involved in fish marketing. Besides, the project will support fish marketing through the provision of credit to traders and entrepreneurs.

4.7 Environmental Impact

4.7.1 The present fishing practices along the coasts of Cabo Delgado and Northern Nampula Provinces are causing serious environmental damages. People are fishing with mosquito nets and large plastic bags, harvesting everything on their passage causing heavy destruction of the seabed between 0 and –15m (continental platform). Great quantities of small fish, fingerlings, larvae, and basic aquatic plants (food for all types of aquatic species) are being taken away unnecessarily. Corrals are systematically broken or destroyed, where most of them are sold for the tourism industry. In addition, the beach net passage is being used extensively which causes severe damage, as they rub on the seabed with strong ropes and load of plumb lines.

4.7.2 The project aims to remedy this environmental damage by pushing artisanal fishing activities further beyond the continental shelf. This will be achieved through the introduction of new fishing techniques, more appropriate equipment such as stronger boats (to enable deeper and farther beyond the continental shelf) and higher mesh-size nets (to limit the catch to the targeted species and sizes) and awareness campaigns. Potential negative impacts of the project were assessed to be of non-significant magnitude and can be eliminated or minimised with proper mitigation measures. The project was environmentally classified as category II according the Bank Environmental and Social Assessment Guidelines.

4.7.3 The main **project positive** impacts include reduction of human activities in the environmentally sensitive on-shore zone, conservation of rare species, capacity building, environmental awareness, water supply and sanitation (basic hygiene). In addition, increased incomes through the project will indirectly improve wellbeing of communities, health conditions through nutrition and possible improvement in local ecology.

4.7.4 Potential **negative impacts** include overexploitation of fish stocks, capture of non-target species, habitat damage through use of certain equipment or fishing methods, anchor damage, degradation of sensitive habitats around Fish Processing Plants (FPP), pollution and health problems by FPP and accidental impacts. However, an Environmental and social management plan will be prepared during the preparatory phase and cleared by MICOA and the Bank. The PCU will implement it as an integral part of the project as a loan condition. A summary of the ESMP is provided in Annex 5.

4.8 Project Costs

4.8.1 Total project costs excluding duties and taxes have been estimated at Mt 435.3 billion or UA18.50 million, with a foreign exchange component of 61%. The estimates are based on December 2000 prices but updated where necessary in June 2001. Price contingencies have been added to the cost as follows: 2% per year for future international price increases and 5% per year for the local component on the basis of current inflation. Physical contingencies of 10% have been applied to civil works and 5% on equipment. When duties and taxes (amounting to about UA2.71 million) are included, the total cost amounts to UA21.14 million. A summary of costs by component and by category of expenditure is provided in table 4.1 and 4.2 below, while detailed cost tables are given in Annex.1 in Volume II.

Table 4.1: Components Project Cost Summary

Components	MZM Million			UA'000			
	F.E	L.C	Total	F.E	L.C	Total	% F.E
Credit for Fish Prod. & Mktng	88,947.2	64659.4	153606.6	3774.8	2744.1	6518.9	44
Community Infrastructure	63 528.8	23006.6	86535.4	2696.1	976.1	3672.3	73
Capacity Strengthening	66 833.8	83052.5	148378.3	2836.4	3527.3	6363.6	51
Total Base Costs	219309.9	170842.7	389727.8	9307.3	7247.5	16554.8	56
Physical contingencies	4 944.8	3326.0	8120.0	209.9	141.4	351.3	59
Price contingencies	12 221.2	25271.9	37477.1	518.7	1072.6	1591.3	33
Total Project Costs	236 476.5	199221.5	435324.9	10035.8	8461.5	18497.4	54

Table 4.2: Summary of Project Cost by Category of Expenditure

Category of Expenditure	In Millions of MZM			In Millions of UA			% F.E
	F. Ex	Local Costs	Total Costs	F.Ex	L.C	Total	
Civil Works	28 313.3	18 126.1	46 439.4	1.20	0.77	1.97	61
Fishing Equipment Credit	51 069.4	39 660.0	11 4902.4	2.17	1.68	3.85	56
Fish Mktg equipment Credit	37 877.8	24 999.4	62 877.2	1.61	1.06	2.67	60
Vehicles and Motorbikes	3 412.5	0.0	3 412.5	0.15	0.00	0.15	100
Fish Proc Equipment	6 689.4	5 001.7	11,691.0	0.28	0.21	0.50	57
Office equipment	543.7	27.8	571.5	0.03	0.01	0.04	75
Other equipment	1 357.2	150.8	1 508.0	0.06	0.01	0.07	86
Technical Assistance	35 674.7	18 263.0	54 297.7	1.51	0.78	2.29	66
Staff allowances	0.0	20 019.7	20 019.7	0.00	0.85	0.85	0
Training	18,939.8	18 469.4	37 409.2	0.80	0.79	1.59	50
Local Staff salaries	0.0	24 004.1	24 004.1	0.00	1.02	1.02	0
Operating & maint. Costs	35 432.1	2 120.7	37 552.8	1.50	0.08	1.59	94
Total Base Cost	219 309.9	170 842.7	390 152.6	9.31	7.26	16.55	56
Physical Contingencies	4 944.8	3 326.0	8,120.0	0.21	0.14	0.35	73
Prices Contingencies	12 221.8	25 271.9	37,477.2	0.52	1.07	1.59	32
TOTAL PROJECT COST	236 246.5	199 221.5	435 468.8	10.04	8.46	18.50	61

4.9 Sources of Financing and Expenditure Schedule

4.9.1 The project will be financed by the African Development Fund (ADF), TAF grant, the GOM and the Beneficiaries. The ADF loan resources of UA 14.17 million will finance 100% of the foreign exchange costs (UA 9.32 million) and 57% (UA 4.85 million) of local costs associated with civil works, equipment and vehicles, training of staff, fishers and entrepreneurs, and community mobilisation, organisation and training. The TAF grant amounting to UA1.73 million will finance the foreign and local costs associated with the Institutional Strengthening component which comprises mainly Technical assistance, consultancy services and beneficiary community mobilisation and training. The total ADF financing will be UA 15.90 million equivalent to 86% of the project total cost. The GOM contribution amounting to UA 2.01 million, equivalent to 11% of the project total cost will cover salaries of local staff to be involved in the project implementation, office rentals and utilities for the project co-ordination unit and operating costs. In addition, the GOM will be responsible for all taxes and duties amounting to UA2.71 million. The beneficiaries contribution will be UA0.61 million, equivalent to 4% of the project total cost through paying 10% of the cost of the items given on credit to ensure ownership and as an expression of commitment. The financing plan of the project is shown in table 4.3.

Table 4.3 Sources of Finance (millions UA)

Source	Foreign Exchange	Local Costs	Total Costs	% of Total
ADF Loan	9.32	4.85	14.17	85.0
Government		1.91	1.91	11.0
Beneficiaries		0.61	0.61	4.0
TOTAL	9.32	7.37	16.59	100
TAF Grant	0.72	1.01	1.73	94.0
Government	0.00	0.10	0.10	6.0
Total	0.72	1.11	1.83	100.00

4.9.2 The contribution of ADF to financing of local costs of the project is justified by several factors. First, Mozambique has successfully undertaken a program of economic

reforms. The rigorous program of market oriented reforms and improved economic management has produced dramatic results and the country has emerged as sub-Saharan Africa's fastest growing economy. Annual real GDP growth, which has averaged 8.3 per cent since 1994, has for two successive years 1997 and 1998, has shown a double digit growth of 10 per cent. This is expected to continue during 1999-2000. As a result, the overall macro-economic environment currently is highly favourable. Inflation has decreased from 70% in 1994, to 5.8% in 1997 and was negative at the end of 1998, as a result of tight fiscal and monetary policies. In fact, the 1998 inflation rate of -1.3 per cent, well below the target of 6.5 per cent has led to a concern that monetary policy is too tight and may be constraining growth. Second, the country has suffered severe natural disasters which have been a strain on the local resources and constrained its ability to finance development programmes.

5. **PROJECT IMPLEMENTATION**

5.1 Executing Agency

The Ministry of Fisheries would be the overall executing agency through the IDPPE National Directorate. The day to day management and co-ordination will be done by IDPPE

5.2 Institutional Arrangements

5.2.1 A Project Co-ordination Unit (PCU) will be established within IDPPE. The PCU will be headed by a Project Co-ordinator (PC) who will be assisted by a Financial Manager and Planning, Monitoring and Evaluation Officer. The GOM will designate Mozambican nationals with previous experience in the management of donor funded programmes. Their curriculum vitae will have to receive the Fund's prior approval as a condition. The PC will be responsible for the co-ordination and implementation of the project activities-preparation of tender documents, bidding process, arrangement for training, quarterly reports and arrangements for external audits and their submission to the Fund. Due to shortage of staff in IDPPE, there is need to strengthen the PCU with Technical Assistants (TAs) in the areas of Marine Biology/Environment Management, Fish Marketing, Gender and Community Participation. The TAs will provide expertise and training to IDPPE staff.

5.2.2 ***Project Steering Committee.*** The project will use existing committees for co-ordination and oversight of project activities. At central level, the MOF Consultative Council chaired by the Minister and comprises the Directors of all agencies, including IDPPE will be charged with policy support and overall co-ordination, while IDPPE's Consultative Council would oversee project operations and implementation. In each participating province, a co-ordination committee chaired by the Provincial Governors will be established to oversee project activities. Members of the Provincial Co-ordinating Committees will be the agencies involved in implementation, representatives of beneficiary groups and district administrators, and other relevant institutions. This will be a condition of the loan.

5.2.3 ***Implementation modalities.*** Fisheries extension and training of beneficiaries would be the responsibility of the IDPPE provincial delegations in Cabo Delgado and Nampula and the stations to be established. The fishing demonstrations will be done by the extension staff of IDPPE. The PCU with the assistance of the participation experts will monitor the process of organising beneficiaries into associations and committees.

Gender issues in the project will be addressed through multiple mechanisms. The Gender expert at the PCU will organise gender sensitisation training for the participating

communities and the project implementation staff, and to ensure gender equity in the various components of the project. Specifically, women beneficiaries will be targeted for micro-credit, training in fishing and business skills. In addition the PCU gender expert in co-ordination with the Ministry of Women's Affairs will design and implement the gender analysis report which will identify gender inequity issues as well as develop gender mainstreaming monitoring indicators and implement the gender mainstreaming strategies within the project framework. The Fisheries Research Institute (IIP) would be responsible for resource assessment and monitoring, the Provincial Fishery Service Directorate will be responsible for fishery statistics and regulation. The IDPPE will enter into working agreements with these institutions for this purpose.

Credit Administration

5.2.4 The FFP given its mandate will manage the credit funds at market interest rate. It is proposed that the funds earmarked for credit estimated at UA 6.79 million be deposited with FFP, for which FFP would enter into a suitable agreement with the Government. To facilitate their work, it is proposed to appoint a Credit specialist in the FFP. All non-bank financial institutions registered with the BOM would be eligible to apply for sub-loans. For this purpose, they would enter into an agreement with the FFP, who will be acting on behalf of Government. Amounts will be released on a demand basis. FFP with the assistance of the PCU will be responsible for verifying that loan requests are for fishery related activities in the Project area; and for arranging the release of funds from BOM. FFP would maintain accounts, submit statements as required by BOM and ADB and keep in safe custody the documents submitted by the participating non-bank financial intermediaries.

5.2.5 The participating financial institutions, such as FFPI, GAPI, CARE, AMODER, etc will onlend to artisanal fishers, entrepreneurs and traders, either by following the normal collateral based approach or by adopting the joint liability group approach. Such an approach would leave the definition of the terms and conditions, as well as the eligibility criteria within the target groups, with the participating institutions who would also bear the full risk of the operation. The following interest structure is proposed: FFP will lend to participating MFIs at 14-16% (this is the current rate by FFP) and MFI to final beneficiaries at between 18-28% which is the current market interest rate. The PFIs will recover the loans from beneficiaries and repay to FFP thus creating a self-sustaining revolving credit fund. For the financial analysis, 20% interest has been assumed. IDPPE and the PCU will be responsible for providing technical advice to borrowers of the financial institutions. In order to minimise the cost of credit administration, the project would assist fishers and other small-scale borrowers in preparing loan applications and financial institutions in the technical appraisal of the loans.

5.3 Procurement Arrangements

5.3.1 All procurement of goods, works and services financed by the Bank will be in accordance with the Bank's *Rules of Procedure for Procurement of Goods and Works* or, as appropriate, *Rules of Procedure for the Use of Consultants*. The methods of procurement were discussed with the Borrower and will be confirmed during loan negotiations.

Table 5.1: Summary of Procurement Arrangements (Amounts in UA'000)

Expenditure Categories	NCB	OTHERS	SL	TOTAL
1. Civil Works				
1.1 Buildings	602.0 (573.4)			602.0 (573.4)
1.2 Access roads	1 187.3 (1 187.3)			1 187.3 (1 187.3)
1.3 Water supply	151.9 (151.9)			151.9 (151.9)
1.4 Landing sites	354.4 (294.2)			354.4 (294.2)
2. Goods				
2.1 Vehicles & Motorcycles	146.4 (146.4)			146.4 (146.4)
2.2 Equipment	623.0 (623.0)			623.0 (623.0)
3. Services				
3.1 TA & Consultancy Services			2 365.9 (2 365.9)	2 365.9 (2 365.9)
3.2 Other services	987.2 (987.2)			987.2 (987.2)
3.3 Training		1 725.5 (1 725.5)		1 725.5 (1 725.5)
4. Miscellaneous				
4.1 Operating costs		1 757.0 (1 049.6)		1 757.0 (1 049.6)
4.2 Local Staff Salaries		1 187.8 (0.0)		1 187.8 (0.00)
4.3 Credit		7 409.0 (6 794.6)		7 409.0 (6 794.6)
Total	4 052.2 (3 963.4)	12 079.3 (9 569.7)	2 365.9 (2 365.9)	18 497.4 (15 898.7)

Figures in brackets are amounts financed by ADF.

5.3.2 Civil Works. Procurement of civil works for construction of the office building at Pemba and various other locations amounting to UA 851 000 will be financed entirely by ADF and will be carried out under National Competitive Bidding procedures (NCB). The NCB procedure has been selected because of the scope and scattered nature of the works involved (15 remote sites). There are adequate number of qualified national contractors who can do these works. The civil works for road rehabilitation estimated at UA 1.19 million and water supply infrastructure estimated at UA151 000 will be procured through NCB procedures under the supervision of the Provincial Directorates of the Ministry of Public Works. For road rehabilitation, it is envisaged that 10 contracts each amounting to UA119 000 each will be awarded. This is mainly because the works are small and scattered in the project area and local contractors are available.

5.3.3 Goods. Contract for vehicles and motorbikes, amounting to UA146 400 will be awarded under NCB procedures. There are adequate numbers of local agents of international suppliers to ensure competitive prices. Contracts for office and other equipment valued at UA96 000 will be carried out under NCB procedures. This involves various sets of equipment such as computers, photocopiers, air-conditioners, and locally manufactured furniture. The contracts for fish processing equipment to be installed in the fish processing centre valued at about UA529 200 will be through International Competitive Bidding (ICB) considering the amounts involved.

5.3.4 Consultancy Services and Training. All consultants required for the project will be recruited through open competition on the basis of a short list, in accordance with the Bank's "Rules of Procedure for the Use of Consultants". Training involving both staff and beneficiaries estimated at UA 1.73 million will be sourced directly from qualified institutions

5.3.5 Credit (UA 6.79 million). Goods to be procured from the credit funds will be carried out by the respective beneficiaries in accordance with established commercial practices acceptable to the Bank. These will include fishing boats and gear (about UA3.89 million), ice making plants, pickups and refrigerated trucks for fish marketing (valued about UA2.91 million) and micro-projects for the women groups (valued UA550).

5.3.6 Review Procedures. The text of a General Procurement Notice (GPN) will be agreed with the IDPPE and it will be issued for publication in Development Business upon approval by the Board of Directors of the Loan Proposal. The following documents are subject to review and approval by the Fund before promulgation:

- Specific Procurement Notice
- Tender Documents or Requests for proposal for Consultants
- Tender Evaluation Reports or Reports on Evaluation of Consultants' Proposals, including recommendations for contract award
- Draft contracts, if these have been amended from the drafts included in the tender documents

5.4 Supervision and Implementation Schedules

5.4.1 The project will be implemented over a period of 6 years from 2002 to 2007, with the first two years mainly devoted to building capacity of implementing institutions, organising beneficiary communities and data collection. In first year, it is envisaged that the project will set up the PCU and recruit national NGOs, national and international Technical Assistance and consultancy services. The project activities will be implemented as shown in Annex 3. The project will be launched immediately after the loan is signed which is scheduled for December 2001, after which the project will be supervised at least once every year.

Table 5.2: Expenditure Schedule by Components (UA '000)

Components	2002	2003	2004	2005	2006	2007	Total
1. Credit to Support Fish Production & Mktg	548.9	752.9	1 350.6	2 502.2	1 487.0	765.4	7 409.0
2. Community Infrastructure	287.1	945.6	782.9	908.4	925.8	315.2	4 164.9
3. Institutions Capacity Strengthening	2 284.9	1 888.8	1 013.9	755.6	526.3	454.0	6 923.5
Total	3 120.9	3 586.8	3 147.4	4 166.2	2 939.1	1 534.6	18 497.4

Table 5.3 Expenditure Schedule by Source of Finance (UA'000)

Sources of Finance	2002	2003	2004	2005	2006	2007	TOTAL
ADF	2 073.2	2 612.9	2 528.3	3 412.0	2 373.8	1 162.2	14 165.0
TAF	717.3	621.3	193.5	202.0	0.0	0.0	1 734.0
Beneficiaries	17.5	41.0	87.4	197.1	185.6	58.6	587.2
Government	312.9	311.6	338.2	355.1	379.7	313.8	2 011.2
Taxes (Govt)	(269.0)	(384.1)	(508.3)	(775.9)	(524.5)	(264.3)	(2 726.0)
TOTAL	3 120.9	3 586.8	3 147.4	4 166.2	2 939.1	1 534.6	18 497.4

5.5 Disbursement Arrangements

The project funds will be disbursed according to the expenditure schedule by component and by source of finance shown in tables 5.2 and 5.3 respectively. The Government will open an account in a commercial bank in the name of the project for the funds provided by ADF. The ADF funds will be disbursed according to an annual work programme, which will be approved beforehand by the Government and ADF. Other disbursements under the project will be made in accordance with the procedures in force. The contribution of the Government to the project costs will be deposited in a special account in the Bank of Mozambique on annual basis as set out in table 5.3.

5.6 Monitoring and Evaluation

5.6.1 The project monitoring and evaluation will be the responsibility of the Planning, Monitoring and Evaluation Officer in the PCU the Bank of Mozambique and Ministry of Planning and Finance will periodically monitor the overall implementation of the project. The PCU will be required to provide quarterly reports prior to each of the National, IDDPE and Provincial Co-ordination Committee meetings. A baseline socio-economic and gender survey will be done within six months of the project commencement to establish the parameters for the verifiable indicators. A mid term review will be undertaken in the fourth year, which will form the basis for modifying the project's approach if, found necessary.

5.6.2 The IDPPE will prepare annual workplans, quarterly (according to the Bank Group format) and annual progress reports indicating physical progress and procurement activities and expenditures, according to the requirements of ADF. The quarterly reports should reach the ADF within two months of the end of the reporting period, while the annual report should be submitted before the end of March of the following year. A project completion report will be submitted by MOF within six months of the end of project implementation.

5.7 Financial reporting and auditing

The IDPPE will keep financial records in accordance with sound accounting practices and will ensure that all project accounts are audited annually by an independent auditor acceptable to the GOM and the ADF. The corresponding reports will be regularly submitted to the Fund for review. Funds have been provided for the recruitment of internationally reputable firm of auditors. The PCU will be responsible for timely submission of annual financial statements. A separate audit will be undertaken on the use and application of the credit funds being managed by the FFP. Fully audited certified financial statements for the preceding financial year shall be submitted to ADF not later than six months after the closing of the financial year.

5.8 Aid Co-ordination

5.8.1 Mozambique is among the largest recipient of development assistance in Africa. Most of the donors, both multilateral and bilateral, are active. The country enjoys good standing in the donor community. The co-ordination of external aid is co-ordinated by the Ministry of Planning and Finance and the Bank of Mozambique. Sectoral working groups involving the Government, the donor community and NGOs represented in Maputo have been established. They concern investment co-ordination in health, education, transport, agriculture, petroleum procurement and import support.

5.8.2 Rationalising donor-supported projects to ensure co-ordination and put Government in the driving seat has been an important issue in all development sectors in Mozambique. While the artisanal fisheries sub-sector is less complex than many others, the issue of donor co-ordination within a government-owned policy, strategic and financing framework remains relevant. Alliances with key donors (mainly IFAD) and harmonisation of approaches were pursued during the formulation of the Artisanal Fisheries Development Project and the project has been designed with the full participation and support of all stakeholders - government, donor, NGO and private sector to develop stakeholder consensus. The project approach is coherent across the sector development strategies and will promote private investment.

6. PROJECT SUSTAINABILITY AND RISKS

6.1 Recurrent Costs

The project recurrent costs are estimated at UA3.22 million (MZM75.74 billion). Over the six year implementation period. At the end of the project, the annual recurrent costs will be about UA0.66 million (MZM15.53 billion) mainly relating to salaries of staff, operations and maintenance costs of the vehicles, office equipment, roads and water supply infrastructure. The maintenance of the boreholes and wells will be the responsibility of the user communities through management committees to be elected and trained. The remaining recurrent costs will be easily absorbed into the government recurrent budget.

6.2 Project Sustainability

The total incremental catch of 8 800 MT per year would represent approximately 38% of the total available resources estimated at 32 000MT. This level of catch is considered sustainable. Besides the project would undertake regular resource assessments to ensure sustainable catch of the different species. Community involvement in resource management, maintenance of infrastructure provided by the project would ensure ownership. The project activities – fish production and marketing are private sector driven who are driven by profit motive. The incremental incomes that would result from the project are attractive and thus would provide sufficient incentive for continued participation of fishers and traders in the project. The fish centre and the fishing landing sites to be constructed will be handed over to the beneficiaries after training to manage. The users will be charged levies which will be agreed depending on volume of fish handled. Management committees will be elected for such purposes. Strengthened communities and government fisheries institutions (IDPPE, IIP, FFP, etc) will ensure effective service delivery to fishing communities. The credit fund will be operated as a revolving fund such that it is self-sustaining. This will ensure sustainability of the benefits. Technology introduction will be gradual and will build on existing ones which fishers are already familiar with.

6.3 Critical Risks and Mitigating Measures

The main risks associated with the implementation of the project and the measures proposed to mitigate those risks are discussed below.

(i) Private sector investment. While community development initiatives will be directly managed by the project, marketing activities cannot be as these will be managed by private enterprises. If the terms of trade and competing investment opportunities do not make it attractive to invest in the fishing and fish marketing activities, it will be difficult for the project to generate the benefits anticipated. As mitigating measures, the project will develop a sound statistical base in order to gain a clear understanding of the markets, market processes and opportunities and constraints. It will also work with the fishers and traders to develop economically attractive options for both parties, and facilitate their implementation. In parallel, it would finance investment studies/business plans for enterprises that would work with artisanal fishers.

(ii) Capacity of IDPPE: It might be difficult for IDPPE to effectively manage a project with such an extensive geographical spread and with such a broad range of initiatives. Shortage of technical capacity could be a limiting factor that would constrain project implementation; multiple tasks and the heavy load that the project would place on the extensionists are a particular area of concern. This risk will be mitigated as the pace of project implementation has been designed with this in mind. In order to develop capacity, the project will finance a substantial training effort that is aimed at strengthening the capacity of IDPPE and the associated institutions.

(iii) Maintenance of project roads. Poor and ineffective maintenance of roads rehabilitated by the project has been a problem for NAFIP, as it is often for roads projects in Mozambique and elsewhere. It could be an issue for this project as well. As a mitigating measure, the project has made available financing – for the first two years of the project period – for the maintenance of those roads that it would rehabilitate thereafter the GOM and communities will take over. The GOM has undertaken to do this and it will be a condition.

7. PROJECT BENEFITS

7.1 Financial Analysis

7.1.1 The present annual catch of a dugout canoe operator is about 2 tonnes of fish, with a total value of US\$760. This income will be significantly improved by catching fish beyond the continental platform and efficiently. The income from a GRP canoe would be about US\$2 800 per year, while that of a GRP 7 m boat would reach US\$15 900 per annum. The income from wooden boats would vary from US\$4 720, in the case of the improved boat, to US\$10 120 for the new one. These incomes show that all the boats that would be introduced by the project are profitable, confirming that the investment of fishers contemplated under the project is a worthwhile venture. This compares favourably in the rural environment where individual incomes are estimated at US\$1.00 per day.

7.1.2 Likewise, the investment that would be made by entrepreneurs in fish processing and freezing as well as in ice making is expected to be profitable. It was not possible to obtain all the technical details and business plans that would be needed to undertake a complete financial analysis. However, comparing the total costs required to freeze a tonne of fish and to make a tonne of ice with the sale price of the product, it has been assessed that investors would obtain highly attractive returns. Assuming that a plant of this size sells 1 000 tonnes of frozen fish per year, the income would be US\$140 000, which should be considered as highly attractive. The present high profit margin, which is a reflection of the short supply, would not last in the face of competition and an intermediate price of US\$60/tonne would probably result. Even so, this would still yield a net income of US\$20 per tonne, giving approximately US\$30 000 for a 5 tonne capacity ice plant assuming 300 operational days per year.

7.2 Economic Analysis

7.2.1 An economic analysis has been carried out for the project, in which only the incremental production of fish has been considered as a quantifiable project benefit. Project output has been valued at its financial price: US\$1.0 per kg for first category fish; US\$0.60 per kg for second category fish; and US\$0.40 per kg for third category fish. For the first category fish, which would be exported, it has been preferred not to use the high export parity price to avoid over-estimation of benefits.

No residual value has been assessed for the boats and other equipment that would be provided under the project. Calculation of project output is based on the boat models discussed in Annex 2 Volume II. The incremental production has been calculated from each of these models in the same annex.

7.2.2 Project costs, net of taxes and duties have been included in the cost streams. Financial costs of vehicles, fishing gear and motors carry 100% duty and taxes, while other equipment, material and civil works carry 17% tax. All boats are expected to be operationally useful for 20 years, except the improved 7-m wooden boat, which should be replaced every 6 years. Outboard motors that would power the boats would be replaced after four years, and their replacement has been included in the analysis accordingly. The operational life of the fishing gear proposed from 1 to 5 years. Their replacement has been included in the analysis according to the schedule given in Annex 4. Based on the above assumptions, an economic rate of return (EIRR) computed over 20 years has been estimated at 25%, which is an attractive return and confirms the validity of the project as conceived.

7.3 Social Impact Analysis

7.3.1 The bulk of the fishing communities in the project area consist of low-income families who live on fish caught or gathered near to the coast. Within these communities, there are estimated to be over 20 000 fishers and their families, who represent the primary beneficiaries of the project. In addition to these, an estimated 300 fish traders plus a large number of fish processors, boat builders, craftsmen and artisans, net makers and sellers and other economically active groups within the coastal communities also stand to benefit from the project.. Many families providing labour along the access roads rehabilitated by the project would benefit. Within the communities, gatherers of sea products who do not have fishing boats are relatively poorer. The project proposes to improve the incomes of the fishers who are non-boat owners, by making available appropriate fishing equipment such as shallow water gillnets, prawn trammels for shrimp and varanda nets for mullets. This assistance to non-boat users is considered as the first move towards borrowing funds for fishing boats. Poverty will be reduced directly through the resulting increase in income of both men and women. This will have a positive impact on reducing poverty.

7.3.2 The establishment of associations will help to reduce the overall dependency on the government and provide a foundation on which the community can further improve self-government. The strengthening of communities will empower the target beneficiaries in developing community planning and decision-making skills. In essence, the associations could provide the basis for fishers to initiate and become actively involved in a wide range of rural development projects. This will enable ownership by the target communities from the beginning of the project and will sustain project activities after project implementation.

7.3.3 The mainstreaming of gender and creation of women's associations and their strengthening will provide fora for women to participate in issues of specific concern to them. Specifically, women will benefit from self-empowerment and greater negotiating skills in the community. They could avail themselves of any of the fishing gear. In addition, the octopus gathering, which is the domain of women, would be qualitatively improved by the introduction of a new clay pot system. This would also result in increased income of women who would produce the clay pots. The major benefit to women would be the higher value of octopus that would result through trapping. The present catching method entails the use of spikes, which pierce and damage the catch and hence lower its price.

7.3.4 Other benefits to women would include employment opportunities in the construction of gillnets. In Ibo island, women already practice net construction, and since the project intervention involves a much wider use of gillnets it would be a logical step for women to avail themselves of this crucial job opportunity. Furthermore, marketing organisations that avail themselves of credit and set up processing units in the major centres will require employees. Traditionally fish processing has been women's domain and, although precedents have not been established in the NFZ, it is anticipated that women would fill this role.

7.3.5 It is envisaged that through the development of the fishing and non-fishing activities there will be a broad based economic benefit resulting in an improvement of family livelihoods. The equitable allocation and access to resources will increase production. The facilitation of transport for marketing of increased product will directly increase income. Other positive benefits resulting from the project intervention will be the increased awareness on HIV/ AIDS, clean water and sanitation, and improved basic community infrastructure.

7.4 Sensitivity Analysis

Sensitivity analysis were carried out using switching values, and this shows that the project is not particularly sensitive to reasonable increase in costs or decrease in benefits. However, it is relatively sensitive to decrease in benefits rather than to increase in costs. For instance, costs must be increased by 50% to reduce the EIRR to 12%, but benefits must fall by only 34% to attain the same EIRR. Fortunately, project benefits and their build-up over time have been based on conservative assumptions; hence, it is unlikely that they would suffer a marked fall. The project is also not particularly sensitive to delays in the build-up of benefits. A two-year delay in accrual of benefits would still yield an EIRR of 16%.

8. CONCLUSION, RECOMMENDATIONS AND CONDITIONS FOR LOAN APPROVAL

8.1 Conclusions

8.1.1 The GOM is committed to enhancing the development of artisanal fisheries as clearly stated in the Fisheries Master Plan. The project will boost fish production by enabling artisanal fishers to catch beyond the continental platform by providing them with improved fishing technology, demonstration and credit to purchase boats and fishing gears. The project will also assist traders and other entrepreneurs who would increase the value of fish by preserving fresh quality and selling it where there is strong demand. Based on four boat models, incremental annual incomes are expected to range from USD2 788 for GRP canoe; USD4 700 for improved 7m wooden boat; USD10 120 for new 7m wooden boat and USD15 900 for GRP 7m boat. These incomes are extremely attractive to fishers and would be the main incentive for catching fish in the project area. Incremental fish production will be 8800MT per year beginning year 9 of the project. In addition to fishers, the project will assist traders and other entrepreneurs to invest in fish marketing activities. Assuming that initially freezing of fish for sale in the domestic market will be the main activity, the net income for a 5-tonne capacity ice plant would be about US\$30 000 which is quite attractive. The EIRR is estimated at 25% indicating that the investment in the project is a worth while undertaking.

8.1.2 The project is socially desirable and environmentally sound, technically feasible and economically viable. The proposed project remains a high priority in the fisheries development strategy by the Government of Mozambique and it is consistent with the Bank Group vision as well as Bank Group strategy for Mozambique.

8.2 Recommendations and Conditions for Loan Approval

8.2.1 It is recommended that a loan amounting to UA 14.17 million and a grant of UA1.74 million from ADF resources be granted to the Government of Mozambique for the purpose of implementing the project as described in this report subject to the following particular conditions:

A. Conditions precedent to entry into force

The entry into force of the loan agreement and Grant Protocol agreement will be subject to fulfilment by the Borrower/Beneficiary of the provisions of section 5.01 of the General Conditions applicable to loan agreements and Guarantee Agreements of the Fund and 4.01 of the General Conditions applicable to the activities of the TAF..

B. Conditions prior to first disbursement

The obligations of the Fund to make the first disbursement of the loan and grant shall be conditional upon the entry into force of the Agreement and Protocol and the fulfilment by the Borrower of the following conditions. The Borrower shall:

- (i) establish the PCU within IDPPE and assign staff, whose Curriculum vitae must receive the prior approval of the Fund, for the positions of Project Co-ordinator, Financial Controller and Planning and Evaluation Officer (paragraph 5.2.1)
- (ii) Provide evidence satisfactory to the Fund for the assignment of the National Consultative Council of the Ministry of Fisheries and Provincial Co-ordination Committee in Nampula and Cabo Delgado to oversee the project implementation (paragraph 5.2.2).
- (iii) Conclude a suitable agreement with the FFP on terms and conditions acceptable to the Fund for the management of the projects credit resources (paragraph 5.2.5)
- (iv) Open a special account in a commercial bank acceptable to the Fund into which loan proceeds will be deposited (paragraph 3.5.1).
- (v) Open a special account held by FFP in a commercial bank acceptable to the Fund into which loan proceeds earmarked for the credit funds will be deposited (paragraph 5.2.5).
- (vi) Undertake to maintain the access roads rehabilitated by the project (paragraph 6.3)

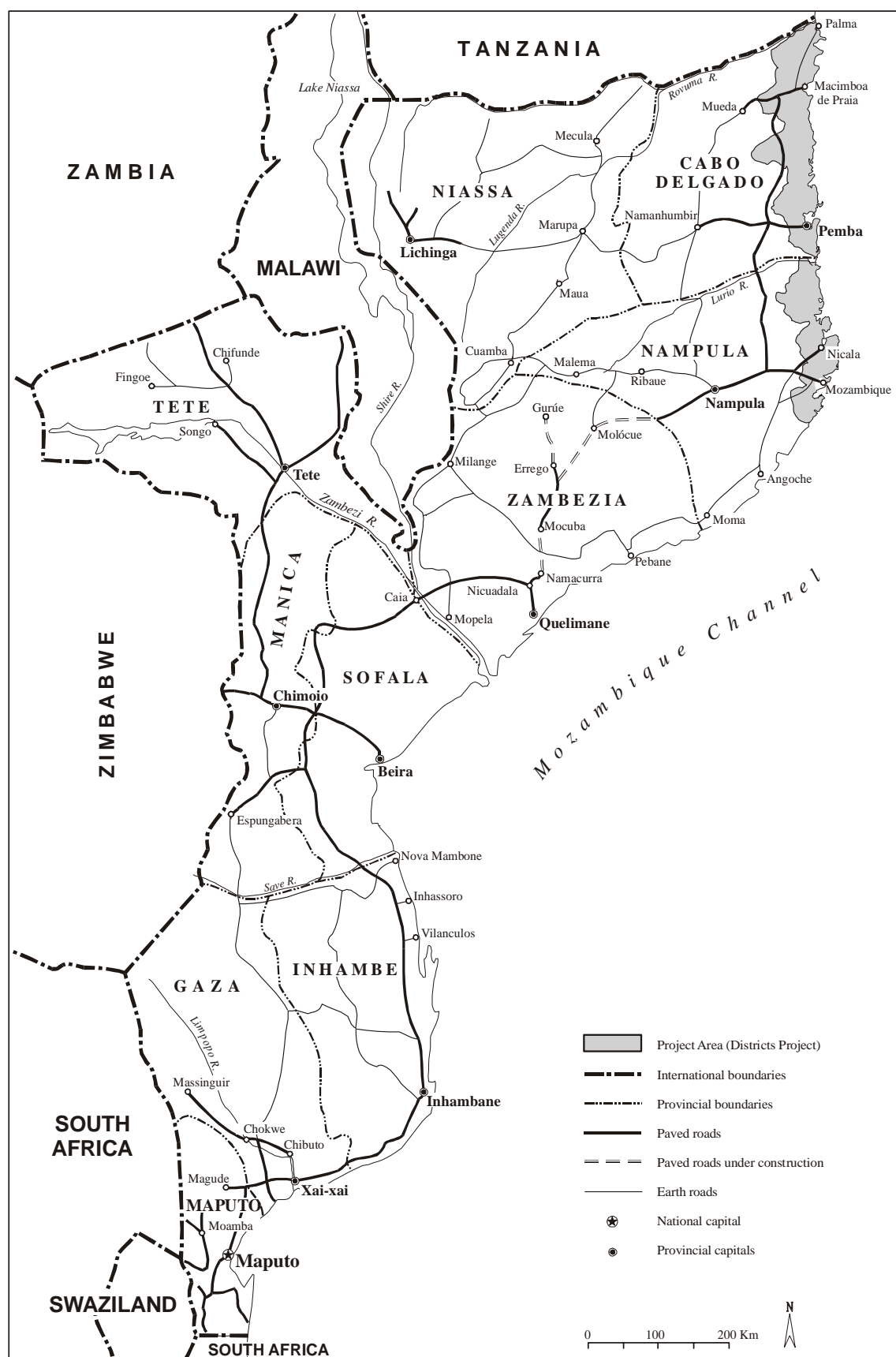
C. Other Conditions

The GOM shall:

- (i) recruit within six (6) months from entry into force of the loan agreement Technical Assistance staff, (paragraph 5.2.1)
- (ii) establish working agreements with the Fisheries Research Institute (IIP) for fish stock monitoring and the Provincial Fishery Service Directorate (SPAP) for collection of fishery statistics and regulation. (paragraph 5.2.3);
- (iii) Disburse to the project account in the first quarter of every year, counterpart funds for each year of implementation, in accordance with the financing plan agreed with the Fund (paragraph 5.5).

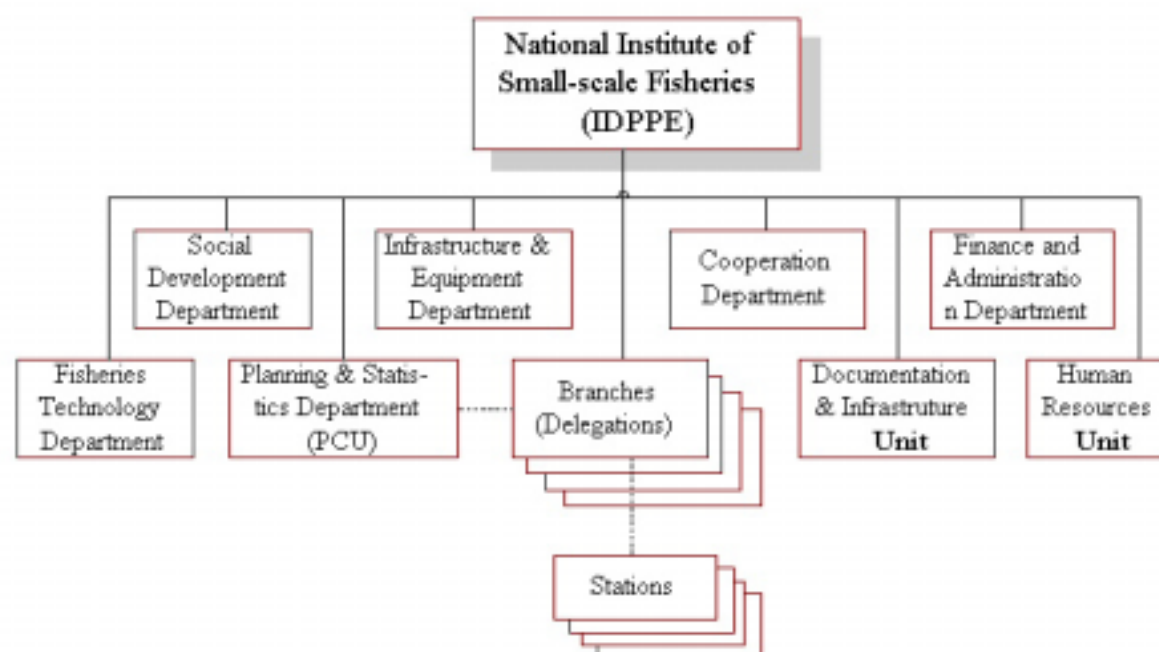
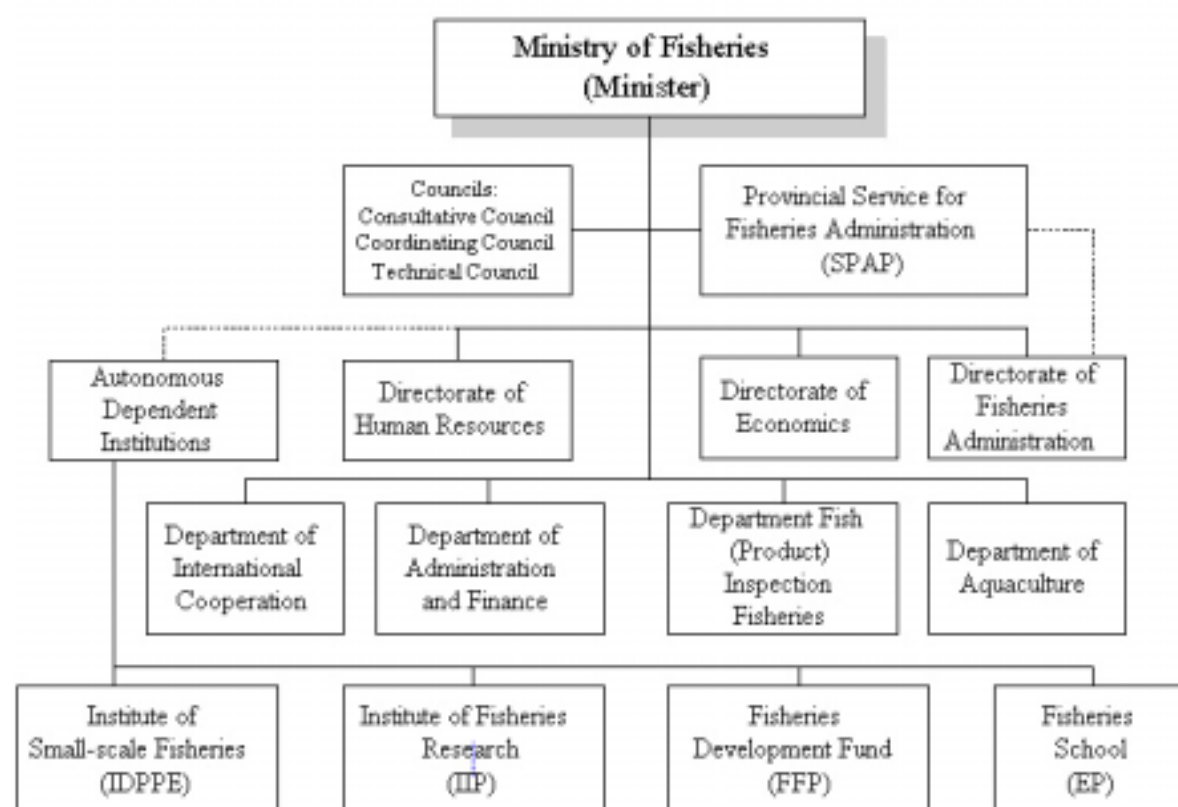
MOZAMBIQUE: Artisanal Fisheries Development Project

Map 1 : Location of the Project Area



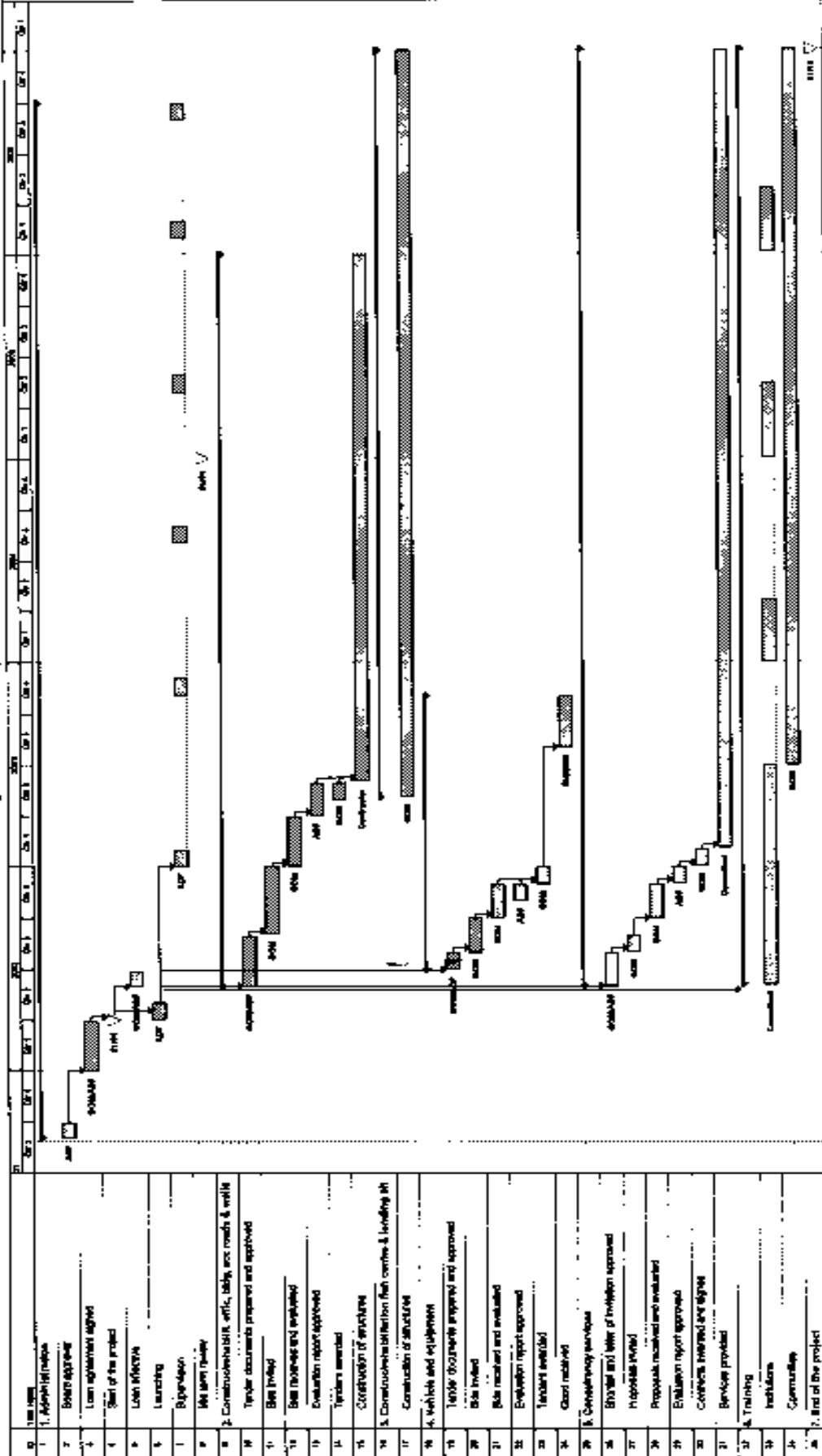
TC1201-22/MOZAM-KIDANE

This map has been drawn by the African Development Bank Group exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgement concerning the legal status of the territory nor any approval or acceptance of these borders



Annex 2

Artisanal Fisheries Development Project Cabo Delgado & Northern Namipula Provinces



[Update August 2001]

MOZAMBIQUE
Artisanal Fisheries Development Project
ECONOMIC BUDGET (In US\$)

YEARS	1	2	3	4	5	6	7	8	With Project		12	13	14	15	16 to 17	18	19 to 20
									9	10 to 11							
Main Production																	
1st category fish	0	0	38.1	542.8	1271.85	2089.45	2561.5	2703	2703	2703	2703	2703	2703	2703	2703	2703	2703
2nd category fish	0	0	0	133.2	366.15	635.85	859.2	944.1	960	960	960	960	960	960	960	960	960
3rd category fish	440	440	645.96	986.28	1462.36	1933.92	2141	2238.8	2238.8	2238.8	2238.8	2238.8	2238.8	2238.8	2238.8	2238.8	2238.8
Sub-total Main Production	440000	440000	684060	1662280	3100360	4659220	5561700	5885900	5901800	5901800	5901800	5901800	5901800	5901800	5901800	5901800	5901800
Production Cost																	
Investment																	
Inv. Costs	1276170	1702041	1466109	988525	408155	328155	0	0	0	0	0	0	0	0	0	0	0
Phy. Contingencies	0	25979	27224	41624	0	0	0	0	0	0	0	0	0	0	0	0	0
Canoe	0	0	16600	16600	33200	33200	0	0	0	0	0	0	0	0	0	0	0
Improved 7 m wooden boat	0	0	33200	41500	41500	49800	0	0	33200	41500	49800	0	0	33200	41500	49800	0
New 7 m wooden boat	0	0	99600	132800	99600	33200	0	0	0	0	0	0	0	0	0	0	0
7m GRP vessel	0	0	0	110000	110000	110000	0	0	0	0	0	0	0	0	0	0	0
Motor	0	0	49500	99000	82500	49500	49500	99000	82500	49500	99000	82500	49500	0	0	0	0
Sub-total Investment	1276170	1728020	1692233	1430049	774955	603855	49500	99000	115700	91000	148800	82500	49500	33200	41500	49800	0
Costs																	
Operating																	
Purchased Inputs																	
Op. Costs	345460	368020	466590	359670	351785	352200	131300	131300	131300	61920	61920	61920	61920	61920	61920	61920	61920
Gear	33200	33200	67429.2	191348.2	322737.2	450856	450856	450856	450856	450856	450856	450856	450856	450856	450856	450856	450856
Maintenance	16600	16600	26975	49758.5	76028	94869	104829	106489	108149	108149	108149	108149	108149	108149	108149	108149	108149
Maintenance	2490	2490	2075	1660	1867.5	2075	4150	6225	6225	6225	6225	6225	6225	6225	6225	6225	6225
Running costs (fuel and oil)	0	0	29820	89460	139160	168980	168980	168980	168980	168980	168980	168980	168980	168980	168980	168980	168980
Ice Cost	0	0	37200	94200	157200	210000	210000	210000	210000	210000	210000	210000	210000	210000	210000	210000	210000
Sub-Total Purchased Inputs	397750	420310	630089.2	786096.7	1048777.7	1278980	1070115	1073850	1075510	1006130	1006130	1006130	1006130	1006130	1006130	1006130	1006130
Labor																	
Crew Cost Canoe	0	0	2875	10125	22875	40000	54000	59250	59250	59250	59250	59250	59250	59250	59250	59250	59250
Crew Cost	0	0	12720	133617.5	350425	601870	765450	825580	830080	830080	830080	830080	830080	830080	830080	830080	830080
Sub-Total Hired Labor	0	0	15595	143742.5	373300	641870	819450	889330	889330	889330	889330	889330	889330	889330	889330	889330	889330
Sub-total Operating Costs	397750	420310	645684.2	929839.2	1422077.7	1920850	1889565	1963180	1964840	1895460	1895460	1895460	1895460	1895460	1895460	1895460	1895460
Sub-Total Production Cost	1673920	2148330	2337917.2	2359888.2	2197032.7	2524705	1939065	2062180	2080540	1986460	2044260	1977960	1944960	1928660	1936960	1945260	1895460
OUTFLOWS	1673920	2148330	2337917.2	2359888.2	2197032.7	2524705	1939065	2062180	2080540	1986460	2044260	1977960	1944960	1928660	1936960	1945260	1895460
Cash Flow	-1233920	-1708330	-1653857.2	-697608.2	903327.3	2134515	3622635	3823720	3821260	3915340	3857540	3923840	3956840	3973140	3964840	3956540	4,006,340.0

IRR=24.8%, NPV=7607037

ENVIRONMENTAL AND SOCIAL MANAGEMENT PLAN SUMMARY

PROJECT TITLE: ARTISANAL FISHERIES DEVELOPMENT PROJECT
PROJECT NUMBER:
COUNTRY: MOZAMBIQUE
DEPARTMENT: OCDS
DIVISION: OCDS.2

a) Brief description of the project and key environmental and social components

The project aims to:

- Promote fishing in a wider area through the introduction of proper boats and appropriate fishing methods;
 - Provide credit for fishers - individually or in groups - for the purchase of boats, motors, fishing gears and other inputs; and for entrepreneurs and traders to establish fish processing facilities, ice plants, cold stores, fish transport facilities and other marketing necessities;
 - Strengthen IDPPE's extension services through staff training, technical assistance, improved mobility and funding for staff recruitment and incremental operational needs;
 - Support IIP through the provision of funds to assess levels of sustainable fish catches, to facilitate fish stock assessment activities in the project area;
 - Support MICOA to conduct environmental monitoring; and
 - Support fisheries management, regulation and statistics collection by strengthening the Provincial Fisheries Administration activities.
-

b) Major environmental and social impacts

Environmental Impacts

Positive Impact: The main project positive impacts include reduction of human activities in the environmentally sensitive on-shore zone, conservation of rare species, capacity building, environmental awareness, and water supply and sanitation (better hygiene). In addition, increased incomes through the project will indirectly improve well being of communities, health conditions through nutrition and possible improvement in local ecology.

Negative Impacts: Potential negative impacts include overexploitation of fish stocks, capture of non-target species, habitat damage through use of certain equipment or fishing methods, anchor damage, destruction of sensitive habitats near Fish Processing Plants (FPP), and health problems by FPP and accidental impacts.

Social impacts

Creation of fishers associations, intended by the project and their strengthening with time, will provide forums for women (mainly involved in processing, marketing and equipment maintenance) to participate in issues of specific concern to them. Moreover, the establishment of associations will help to reduce the overall dependency on the government. In essence, the associations increase the bonds among the group and could provide the basis for fishers to initiate and become actively involved in a wide range of rural development activities, such as marketing, education and health projects.

c) Enhancement and mitigation program

A full Environmental and Social Management Plan (ESMP) will be developed by the project team and cleared by both MICOA and the Bank before commencement of project physical implementation. The following mitigation measures represent the main outlines of the EMSP and will form an integral part of the project:

- A full time TA marine environment protectionist will be engaged in the project management team. This specialist will have an appropriate academic background, i.e. knowledge in aquatic limnology, marine taxonomy, marine ecology, etc. His basic function will be to follow up the implementation of the mitigation measures. He will also design and lead marine environment conservation awareness activities in collaboration with MICOA and the Global Environment Facility (GEF) project.

- Overexploitation of stocks will be managed through co-management committees and environmental awareness campaigns. In addition, the project will provide support to the government to update the current 'artisanal' fisheries legislation and its reinforcement.
- The project is designed to operate in a participatory approach where all activities will be implemented in close collaboration with local communities to increase their sense of ownership. New techniques will be introduced under the project.
- Highly selective fishing methods will be used in the project. This, together with the awareness campaigns, will help to avoid the capture of immature and non-target species.
- Fishers will be educated in boat safety, safe handling methods of oil, fuel, control of spills; and conservation of marine resources.
- The project will mainly involve droplines and gillnetting, avoiding boat anchoring and damage on the coral areas.
- The project will provide water supply and sanitation facilities in the fishing centres.
- Fish Processing Plants (FPP) will be positioned away from any sensitive habitats and will maximise the commercial use of solid fish wastes with any residual material be incinerated. In addition, resulting wastewater will be treated to reduce BODs and suspended solids. Pest and vermin populations and faecal coliform levels in the vicinity of the FPP will be monitored to provide for early detection of potential outbreak of diseases and to allow for effective contingency containment actions. Occupational health measures will also be observed in the FPPs and rules for workplace safety will be taught to employees and strictly reinforced.

d) Monitoring program and complementary initiatives

- The marine environment protectionist will lead the environmental monitoring activities and will provide regular reporting to both project management and MICOA.
- A monitoring and surveillance system will be secured with the assistance of extensionists and co-managed by the locals themselves.
- as part of its going-on activities of its provincial offices in Pemba and Nampula, MICOA will follow up project activities and monitor the implementation of ESMP.
- Bank supervision missions will also follow up the implementation of ESMP.

e) Institutional arrangements and capacity building

The overall responsibility for implementation of the project ESMP will rest with IDPPE. In addition, the project will provide staff training, technical assistance (including the marine environment protectionist), improved mobility, funding for staff recruitment and incremental operational needs. Training and environmental awareness campaigns will be provided and continued all over the project period. Governmental efforts to update and enforce artisanal fisheries legislation will be also supported by the project.

f) Public consultations and disclosure

The project is designed to operate using a participatory approach where all activities to be implemented in close collaboration with local communities to increase their sense of ownership. During project preparation and appraisal specific comments were received from the public concerning potential environmental impacts of the project. The issues raised were followed up at meetings with MICOA, WWF, NGOs and other stakeholders and considered in the final project design. A comprehensive program for public consultation will be conducted at the start of the project.

g) Estimated costs UA300,000.00

h) Implementation schedule and reporting

The environmental management and monitoring will be implemented following the same project schedule as all activities are mainstreamed in the project design. Achievements/problems will be reported in the project quarterly progress reports and will be timely addressed by the project management and the Bank.

PROVISIONAL LIST OF GOODS AND SERVICES

ADF LOAN

CATEGORY	UA'000		
	F.E	L.C	TOTAL
Civil Works	1,328.7	664.7	2067.2
Fishing equipment Credit Fund	1,915.3	1499.3	3,372.6
Marketing equipment credit	1,784.2	1,121.6	2,905.8
Community Credit Fund	404.0	92.3	496.3
Vehicles	146.4	0.0	146.4
Equipment			
Fish Processing	294.6	234.6	529.2
Office	23.8	1.2	25.0
Other	61.4	7.0	68.4
Technical Assistance	1,073.5	572.2	1,645.7
Project Operations	0.00	568.9	568.9
Training	0.00	711.7	711.7
Operations and Maintenance	1607.6	0.0	1607.6
TOTAL			14,165.0

TAF GRANT

CATEGORY			
Technical Assistance	575.2	148.0	720.2
Training	0.0	1013.8	1013.8
TOTAL			1734.0

List of Annexes in Project Implementation Document

1. Detailed Estimated Cost Tables by Component
2. Financial and Economic Analysis – Assumptions and Calculations
3. Credit Institutions and Administration
4. Map showing Districts covered by the Project
5. Gender Mainstreaming
6. Participation Enhancement

Annex

MOZAMBIQUE
ARTISANAL FISHERIES DEVELOPMENT PROJECT – APPRAISAL REPORT

ADDENDUM TO THE APPRAISAL REPORT

TABLE OF CONTENTS

	Page
Section I:	
Supplementary information on Micro-Finance Institutions (MFIs)	1
(A) Introduction	1
(B) Assessment of Some Micro-Finance Services Providers	2
1. TCHUMA	2
2. SOCREMO	3
3. Fund for the Development of Small Industry (FFPI)	3
4. Caixa Comunitaria de Credit e Poupanca (CCCP)	4
5. Society for the support of small investments projects (GAPI)	5
6. CARE International in Mozambique	7
7. Community Credit Fund (FCC) – World Relief (WR)	8
8. World Vision (WV)	8
9. Projecto de Apoio as Pequenas Industrias Rurais (PAPIR)	9
10. CAIXA De Mulheres De Nampula (CMN)	10
11. Mozambique Association for Rural Development	11
12. Menonite Economic Development Association (MEDA)	11
 CONCLUSION	 12
 Section II:	 13
Procedures to Access the Credit Fund	13
1. Credit Administration	15
2. Criteria for Selecting MFIs	15
3. Eligibility Criteria for Beneficiaries	15
4. Security	15
5. Monitoring and Evaluation	15

SECTION I

SUPPLEMENTARY INFORMATION ON MICROFINANCE INSTITUTIONS (MFIs)

(A) Introduction

1. The financial system in Mozambique comprises the formal and informal sub-sector. The formal sector consists of commercial banks and non-bank institutions, mainly insurance companies and micro-finance organizations. The commercial banks have limited outreach due to few branches and lending terms. Micro-finance institutions (MFIs) are defined as NGOs, associations, co-operatives, or other institutions that provide financial intermediary services. According to the report of a Study of the Micro-finance Sector in Mozambique (February 2001), there are about 35 MFIs operating in Mozambique. Almost 40% of the customers are working in informal trade; 25% in agriculture; 25% in small industries; and 10% others. The most widespread methodology of providing loans is through solidarity groups, with some operators offering individual loans.

2. The following assessment covers 12 out of 35 MFIs existing institutions, based on available data, as a sample to provide a clear picture of the MFIs that are currently operating in the credit sub-sector in the country. It is envisaged that the project will need about 4-6 MFIs to cover the project-selected sites. All the 35 MFIs will be allowed to participate in the selection process of the MFIs. The following assessment and supplementary information are gathered from the following four main micro-finance assessment studies:

- (i) Formulation Report of the Sofala Bank Artisanal Fisheries Development Project, Financial Services Report, Working Paper No. 9, IFAD, February 2001;
- (ii) Project Preparation Report of the Artisanal Fisheries Development Project, Development Credit, Annex 5, FAO/IC on behalf on the ADB, March 2001;
- (iii) Study of the Micro-finance Sector in Mozambique, Mozambique Micro-finance Network, February 2001; and
- (iv) Artisanal Fisheries Project Appraisal mission, Mozambique, June 2001.

3. In general, managerial capacity of the micro finance programs in Mozambique varies according to the technical support that might be received from different donors or technical partners. Those institutions that have support from donors have the capacity to perform adequate credit management; control systems and accounting, which will allow an adequate, follow up of loan repayments.

(B) Assessment of Some Micro Finance Service Providers

1. TCHUMA

1.1 Ownership and Management: TCHUMA was established in 1995 with the purpose of providing financial services to the emerging Mozambican entrepreneurial class, who do not have access to the services of mainstream banks, with a particular emphasis on women. It is funded by the Swiss Development Corporation (SDC) and Fundação para o Desenvolvimento da Comunidade (FDC), a charitable foundation. TCHUMA operated with the remaining funds from SDC, and some funding from FDC, during 1998 and the first half of 1999, and its own internally generated funds. TCHUMA has a Board of Directors/Executive Committee with 7 members, including representatives of the two founding institutions, a specialist in microfinance, and the Director and Deputy Director.

1.2 The form of a credit and savings co-operative was chosen because it is the only form, apart from a fully-fledged bank, which is permitted to mobilize deposits for on lending. Despite its status as a co-operative, TCHUMA operates more like a commercial company. At the end of 2000, TCHUMA established a partnership with one of the foremost providers of technical assistance to the sector. USAID, under the Micro-enterprise Implementation Grant Program, tentatively approved, US\$800,000 of funding which would pay for technical assistance over the next 3 years and provide the credit fund and for operational expenses. At the end of 2000, TCHUMA acquired a software package for its management information system, which integrates the credit operations and the accounting. This is being done by training a staff member with the help of an IT specialist on a part time contract, and courses available in Maputo. Furthermore, TCHUMA will benefit from an initiative jointly financed by UNDP and AMINA for micro-finance capacity building.

1.3 Financial Performance: Most first loans are for MZM 1,500,000 (USD75) increasing up to a maximum of MZM 4,500,000 (USD225) per person with a three month repayment period, with monthly repayments. After the first loan, the repayment can be extended gradually up to 6 months. Borrowers must make deposits into a guarantee fund, 10% for loans up to MZM 1,500,000 (USD75) and an additional MZM 100,000 (USD5) for each increase of MZM 500,000 (USD25), for which they receive interest if all repayments are made on time. The interest rate is 60% per year, on a declining balance. The maximum authorized for the initial individual loan is MZM 4,500,000 (USD225). The maximum currently authorized by the Board of Directors is the equivalent of US\$ 1,000. Other terms are the same as solidarity loans. Most loans are currently between MZM 3,000,000 (USD150) and MZM 6,000,000 (USD300). The number of active clients was 3,157 at end December 2000 with a loan portfolio of USD541,872. The outstanding loans in arrears for more than 30 days were 7%.

1.4 TCHUMA plans to expand its operations so as to become financially sustainable by the end of 2005. This will require increasing active loans to 15,700 and the value of the portfolio to US\$3,141,600 and deposits would total US\$269,475. To achieve this TCHUMA's will create new branches in 3 provincial towns. TCHUMA business plan envisages covering any shortfall in funding by loans at an interest rate of 15%. It therefore needs to work with donors. TCHUMA has expressed interest to participate in the artisanal fisheries project credit activities.

1.5 Target and Outreach: TCHUMA began operating around Maputo, but has the intention of expanding its services to other provinces. TCHUMA offers both solidarity group and individual loans. The share of the portfolio in group loans at the end of June 2001 was 12%. Main activities financed are petty trading, and smallscale production and services. Some 65% of clients are women.

2. SOCREMO

2.1 Ownership and Management: SOCREMO, which started in 1992, is funded by GTZ. In 1998, it became the first micro-finance programme to become a registered financial institution. The three principal share holders being the Government of Mozambique through Gabinete de Promocao de Emprego - GPE (94%), Christian Council of Mozambique/Conselhos Cristao de Mocambique (3%) and the General Union of Co-operatives – UGC (3%). It has a Board of Directors comprising the shareholders, a representative of the financial sector and a representative from its technical partner, and GTZ. GTZ provides technical assistance through its technical partner (LFS) that has micro-finance expertise.

2.2 Financial Performance: The total value of the loan portfolio is USD500,000. The average loan size is MZM 9 million (USD450), with a maximum of MZM 60 million (USD3,000). The repayment period ranges from 6 to 12 months. SOCREMO has a computerised MIS which is capable of generating various types of reports such as daily cash flows, portfolio of individual loan officer, overall portfolio, clients in arrears, and data on each client including business information. It manages to cover 86% of its operating costs from portfolio income, which is better than the average for small MFIs in Africa with average of 70% operational self-sufficiency. The portfolio in arrears for more than 30 days is 13%, while outstanding loans in arrears for more than 90 days is about 9%.

2.3 SOCREMO is in the process of consolidating its operations and giving a better focus to its products and clients to aim for faster growth. They are open to the idea of providing individual credits to fishers and have plans to expand their area of operation. They are reported to be keen to participate in the proposed artisanal fisheries project.

2.4 Target and Outreach: SOCREMO is based in Maputo and has a branch office in Beira. Originally based on the methodology of group lending, SOCREMO now only gives individual loans. Currently SOCREMO has over 1,600 active clients mostly in commerce. Most of the clients are in commerce with some involved in productive activities.

3. Fund for the Development of Small Industry (FFPI)

(Fundo de Fomento para a Pequena Industria)

3.1 Ownership and Management: The FFPI works under the supervision of the Ministry of Industry, Commerce and Tourism (MICTUR) and receives its budget from industry licences and other government contributions. The fund was made operational through a pilot programme in 1993. Currently, it has a Board of Administration comprising five members: three representatives of the Government and two from the private sector. A representative of the Swedish International Development Agency (SIDA), the principal donor supporting FFPI activities, sits on the Board in an observer status. The management team is headed by an Executive Director who attends board meetings without voting rights. Currently, it has 29 staff,

10 of whom have first degrees or higher qualifications, while another 10 have technical/professional qualifications.

3.2 Financial Performance: The Ministry of Finance has signed a subsidiary loan agreement with FFPI. Based on this agreement FFPI received a sub-loan at 5% from the Ministry of Finance. The lending terms and conditions are similar to those followed by commercial banks. Loans vary normally between US\$ 3,000 to US\$ 30,000. Loan period varies between 2 to 5 years and the borrower has to pay interest between 23 to 25%. FFPI has 297 outstanding loans totalling US\$ 1.21 million with about 14.5% of its outstanding loans in arrears.

3.3 FFPI is aiming to stabilise the sources of funds. In this regard, FFPI seeks to participate in credit programmes financed by donor agencies. It has expressed strong interest to participate in this project.

3.4 Target and Outreach Most of its clients operate in small business in urban and peri-urban areas in all provinces of the country. After the BPD dropped out of the Nampula Artisanal Fisheries Project (NAFP) funded by IFAD, FFPI was brought into the picture. The credit scheme is targeted at investments in processing and trading facilities and fishing gear under the IFAD funded project.

4. Caixa Comunitariria de Credit e Poupanca (CCCP)

4.1 Ownership and Management: CCCP began operations in February 1997 with funds from Agence Francaise de Development (AFD) and IRAM, a French NGO that has extensive experience in microfinance, as the technical partner. It is governed by a Monitoring Committee composed of representatives of the Bank of Mozambique, the Ministry of Finance, the Ministry of Agriculture and Fishers, and Agence Francaise de Development. A Management Committee appointed by members acts as the Board of Directors for the associations. The management is headed by a National Co-ordinator, a professional with experience in micro-finance area, assisted by a Co-ordinator of Cabo Delgado. CCCP has 33 staff, including 16 Credit Officers and one expatriate. The credit officers undergo regular in-service training courses. Some of them have undergone training in financial systems in France. In addition, members of the Monitoring Committee, some technicians and presidents of the associations have gone on study trips. Credit requests from each association are approved by the Management Committee of the association. The promoters and Programme Coordinator jointly approve credit requests from the associations.

4.2 Financial Performance: By June 2000, the value of the active portfolio was MZM1.50 billion (USD75000). The loan recovery rate is 93%. The outstanding loans in arrears (>90 days) is 4.3%. CCCP developed their own MIS software, which generates information to monitor the portfolio, as well as balance sheet and profit and loss account. The reports produced are used to monitor the information produced by the associations. Annual external audits are conducted to the programme and selected associations.

4.3 CCCP plans to increase outreach to 5700 active clients with a portfolio size of 11.39 billion (about USD570000) in 2003. To achieve that level of outreach, expansion to new areas is foreseen. In this regard, the management expressed strong interest to participate in the artisanal fisheries project

4.4 Target and outreach: The CCCP loans to associations who later on-lend to individual members. The target clients are those with no access to the commercial bank services but intend to develop or to expand an economic activity. CCCP objective is to establish associations owned and operated by members. Clients include small traders, farmers, the production and service sector. By June 2000, the number of active clients reached 2173. CCCP operates in Maputo and Cabo Delgado provinces.

5. Society for the Support of Small Investment Projects (GAPI)

(Sociedade de Promocao de Pequenos Investimentos)

5.1 Ownership and Management: GAPI is the first non-bank financial intermediary to start operations in Mozambique. In 1984 the Friedrich Ebert Foundation (FEF) from Germany received permission from the Mozambican government to develop a small industries promotion project to support local economic development. As implementing agency, the "Gabinete de Consultoria e Apoio a Pequena Industria" (Unit for Consultancy and Assistance of Small Industries) was created and came to be known as GAPI. The Mozambican government and the Foundation agreed to transform the project into a Mozambican company. In 1990, GAPI Ltd was formed. The state through the Banco Popular de Desenvolvimento (BPD) took 70% of the share capital and the remaining 30 per cent belonged to the Foundation. New regulations and laws for banks and credit institutions as well as organisational development and internal growth of GAPI made it necessary to transform the legal status of GAPI Ltd. Finally in August 1999 GAPI was officially registered as a joint-stock company, GAPI SARL with an equity capital of MZM 41,000 million (USD2.05 million). It was also agreed that the state government would reduce in due course its share to 30%.

5.2 As a part of bilateral development co-operation between Germany and Mozambique, in 1991 GAPI signed its first financial funding agreement with KFW (German financing institutions) that provided DEM 3.0 million for a credit scheme and DEM 0.5 million for technical assistance. It was agreed that these repayments should be first collected into a revolving fund and later transformed into equity capital to strengthen GAPI's capital base. On 31 July 1996, a new protocol was signed to provide a further DEM 5.0 million. These funds are applied as follows DEM 7.5 million to finance loans to private companies with less than 50 employees, and DEM 1.0 million for the financing of technical assistance to clients. Under a tripartite agreement between Agence Francaise de Development (AFD), Republic of Mozambique and GAPI dated March 1993, AFD provided FRF 5.0 million. This protocol was extended to FRF 8.0 million in May 1996. The funds are applied as loans to private companies up to maximum of FRF 400,000 for up to periods of 6 years,

5.3 Since 1999, in the context of modernization of the financial sector, GAPI has adopted the role of a funds management finance company directed to the promotion of small and medium-sized enterprises in Mozambique. It provides services in the areas of credit, venture capital, financial advisory and consultancy as well as training in business management areas. Clients can be enterprises, co-operatives, institutions or individuals. Individuals should have Mozambican citizenship. Enterprises should incorporate a reasonable equity share of Mozambican shareholders. Further conditions are technical and financial viability, sufficient management capacity and experience, creation of jobs and no negative environmental impact.

5.4 GAPI has a five-member Board of Directors, three of whom are executive. These are the Chief Executive Officer, and the Directors of Finance and Credit Departments. The other members of the Board are one representative each of the ministry of Planning and Finance (MOPF) and FEF. A 3-member Board of Trustees appointed by the shareholders monitors the activities of the Board of Directors, and provides strategic direction to the institution. GAPI currently has a staff strength of 24, and is structured into two departments: Finance and Administration, and Credit.

5.5 Financial Performance: From 1992 to 1999, 508 loans have been granted throughout the country. The breakdown is given in table below. Typical loan sizes average USD20-30 000. GAPI has about 14% of its outstanding loans in arrears as at 31 December 2000. 40% of these are in arrears for between 30 and 60 days, while 29% have been in arrears for between 60 and 90 days. The balance of 31% has been in arrears for more than 90 days. GAPI is working strenuously to reduce the level of arrears.

Sector	Number of credits	Total loans (‘000 US\$)	Average credit (USD)
Agriculture	148	2 342	15,800
Rural Trade	32	439	13,700
Food processing	134	256	15,300
Construction	79	1 938	24,500
Fishery	70	2 816	40,200
Services, transport	45	1 123	24,900
Total	508	10 714	22,400

5.6 Since its formation in 1990, GAPI has shown a constant growth. Starting with only US\$ 68,000 of total assets financed through equity, its total assets have grown to US\$ 10,544,000 and its equity capital has grown to US\$ 3,640,000.

5.7 GAPI as an institution has several advantages: (i) it has been licensed by the BOM to undertake credit activities; (ii) it has the experience of administration of credit available from donors; (iii) it has a computerised system for maintenance of accounts and administration of credit; (iv) its recovery performance is high at about 85 per cent; (v) management has been following prudent policy and makes adequate provisions for bad and doubtful debts; (vi) it charges competitive market rates of interest; (vii) it has a light administrative structure and experienced staff; and (viii) it can provide consultation and advice to customers.

5.8 Target and Outreach: Apart from its head office in Maputo, GAPI operates from three provincial offices: the Beira covering Sofala, Manica and Tete; Nampula office covers the northern provinces of Nampula, Niassa, and Cabo Delgado, while the Quelimane office covers the Zambezia province.

6. Care International in Mozambique

6.1 Ownership and Management: CARE Mozambique has had two interventions, which are: (1) the CRER pilot operations in Nampula with funding from NAFIP (IFAD project) and Dutch Government Aid. The CRER project of CARE provides credit to fish traders and other small fishing commercial activities. This approach has met with success when dealing with the so-called confidence or solidarity groups. (2) CRESCE is the second CARE intervention in the provinces of Sofala, Manica and Zambezia. The total staff number are 15 including field and credit officers. This programme has been operating since 1996. This program is also aimed at small fishing and non-fishing enterprises and is based on a five-member solidarity group approach.

6.2 Financial performance review: Under the CRER programme of CARE Mozambique, small loans of USD 100 to 400 were provided to small groups of urban-based informal traders in Angoche and Moma Districts. 832 loans were issued to a total value of US \$151,000. Portfolio-at-risk for 30 days was 23% in Moma and 12% in Angoche; an average of 17% between the two areas. This programme came to an end in December 2000. Main problems experienced were linked to the businesses financed. Poor road access and lack of freezing facilities caused losses and resulted in recovery problems. Transaction costs were relatively high and the whole operation proved unsustainable for CARE.

6.3 The second CARE Mozambique programme is CRESCE which has received donor funding from DFID and CARE Austria to the total value of USD 200,000. The services follow the typical micro-finance formula. The clientele is almost totally urban. Loans are almost solely for working capital in petty trade and no loans are made for agricultural or fishing production. Loans start from MZM 1 million (about US\$ 50) and increase by MZM 500,000 (about US\$ 25) per cycle. The interest rate is 1% per week flat, resulting in an effective annual rate of 87.4%. All loans are short, with a repayment period of 10-20 weeks. The portfolio performance is good, with portfolio-at-risk for 30 days at 1%. A compulsory 10% saving of the loan amount is required at credit disbursement.

6.4 Other CARE products include stamp based savings groups and rotating savings groups. In *stamp-based savings groups*, members of small groups can make any size of deposits which are recorded in savings books using stamps denominated by amounts of MZM 5,000 or 10,000 (approximately US\$ 0.25 to \$ 0.50). Withdrawals are allowed only once a full page (10 stamps) has been filled. Money is stored in a wooden box with two locks held by two different group functionaries. Groups are encouraged to open a bank account once total deposits of MZM 300,000 (approximately US\$15) are reached. This is a savings group and therefore no loans are issued in this method. The *rotating savings and credit groups* is quite attractive and popular even in the poorest sections of the communities due to its very low savings requirements. The operation starts as the traditional *xitique* in which each member contributes periodically the same amount and one member receives the entire collected amount. However, as the deposited sums grow bigger, in the “advanced PCR” more flexibility is introduced by allowing members to borrow funds when they need, with the savers benefiting from interest paid by the borrowers (10% per month). Money is kept in a locked wooden box and basic bookkeeping is done in a standard exercise book. For the advanced PCR operation in which the accumulated capital is actively lent out as loans, no bank is required, which is a major advantage in the isolated communities of the coastal area.

7. Community Credit Fund (FCC) - World Relief (WR)

7.1 Ownership and Management Structure: World Relief is an international NGO which started operations in Mozambique in 1994. It is currently the largest and most successful micro-finance programme in Mozambique. In 2000, World Relief established a micro-finance company called Community Credit Fund (FCC), which is registered as an MFI under the Bank of Mozambique. It has recruited a number of professional expatriate staff to convert the operation into a self-sustaining savings and credit operation. Altogether they have a total of 28 staff who are responsible for identifying clients, credit-screening, disbursing and collection of repayments. Their target group is mostly urban poor engaged in non-agriculture activities.

7.2 Financial Performance Review: FCC operates as a standard micro-finance activity based on the village bank approach. Each group consists of 25 to 30 members. There is a compulsory saving of 12.5% of the total loan amount required. Loans are for short-term and carry a 3% flat monthly interest rate. Loans are also mostly made for small amounts between US\$ 100 to 300. Savings are collected as a partial collateral for loans. The total portfolio is around US \$500,000, with the total compulsory savings at US\$ 100,000. The portfolio quality has a 98% on-time recovery rate. FCC has an aggressive growth strategy and seeks to expand its operations with new implementing partners. For example, in Nampula village banking loans were started recently with about 10 groups averaging 22 members. Contrary to their operations in the South where about 90 per cent of the clients were women, only 20 per cent are women in these groups. It was felt that even with this low rate, most of the women who joined were not originally from the area.

7.3 FCC is considering some operations modifications. One is that FCC is scheduled to become an independent financial institution with its independent structure and administration. The second is that under a new management structure, the FCC, though recognising that village or community banks will be their "bread and butter" product, will be looking at diversifying its products and would be willing to consider individual loans to fishers, as well as traders and distributors. WR officials have specifically indicated that they would be looking at investments in fishing along the Nampula coast. However they would target only those areas which would offer better scope for increasing their outreach. This second development indicates management trend towards focusing more on commercial rather than artisanal fishing.

7.4 Target interventions: The FCC has started a micro-finance programme in Nampula, which is funded by United Nations Capital Development Fund (UNCDF). To date their methodology has been limited to village banking in urban and peri-urban areas. The FCC operates through two branches in the peri-urban areas with a total clientele of about 5,000 individuals.

8. World Vision (WV)

8.1 Ownership and Management Structure: World Vision is an international NGO registered in Mozambique since 1988 as a "relief NGO". Its micro-finance operations have started in 1997 and therefore are still young for any meaningful analysis. World Vision operates mainly in Nampula and Zambezia provinces with a total of about 18 staff members including the credit officers and the co-ordinators.

8.2 Target interventions: World Vision experience in micro-finance has been insignificant. One reason is that their programmes target more difficult and isolated target groups. World Vision is implementing Projectode Microfinancas de Zambezia (PROMIZA) funded by Department for International Development (DFID), using the village banking methodology. The credit programme is designed to ultimately become a sustainable independent financial institution which will become a part of a three part integrated programme which also included agricultural research, extension and land tenure sensitisation. The first loans were distributed in April 1999 to 16 groups of 25 members of whom about 10 per cent were women. First round loans are about US\$ 40 per individual, increasing to about US\$ 70 during the second cycle loan. Payments are made on a monthly basis and must be made regularly to attain a second cycle loan. To date the World Vision has an accumulative number of 400 borrowers of which 25% are women.

8.3 However, some serious problems have affected the programme. Thirteen of the groups failed to repay the loans. An assessment judged the clients to have been too poor and to have too little experience in business. Further problems were encountered with the credit staff, all of whom, save the supervisor were fired for fraudulent activities. DFID and World Relief are currently reviewing the programme. For the time being, World Vision is not interested in working with another donor than what they already have. They are however, open to considering loans to fishing communities, especially to traders within their village-bank approach, in the near future, that would promise them sufficient loan volumes to achieve sustainability.

9. Projecto de Apoio as Pequenas Industrias Rurais (PAPIR) Sofala Province

9.1 Ownership and Management Structure: PAPIR's mission is to support economic development in Sofala province by promoting entrepreneurship development and improving the access of micro and small enterprise to non-subsidised sources of credit. The organisation was created in 1990 under an agriculture programme financed by the Nordic Countries. Under this programme PAPIR provided support to small holder farmers in terms of agriculture inputs. As the programme came to an end, PAPIR carried on with its functions with financial and technical support from a Danish NGO. Currently 7 staff members based in Beira run PAPIR's operations. The credit manager can approve a loan amount of US\$ 850, above this limit the Director must approve the loan application.

9.2 Financial Performance: PAPIR's financial products are: Credit for manufacturing, trade, and services. Each of these credit lines is distributed into working and investment capital. For example, under credit for manufacturing the working capital has a ceiling of US\$ 510 for first time borrowers. This loan product has a repayment period of 12 months with monthly instalments.

9.3 Another loan product is investment capital, which is approximately US\$ 1,000 for first time borrowers. This amount is to be repaid in up to 36 months in monthly instalments. Interest rates for all loan products is approximately 40% flat with an administrative fee of 5% per year. Management is currently reviewing its interest rate policy to bring it line with inflation and administrative costs. PAPIR has a limited outreach. Since 1994 it has given cash credit services to 635 clients and in 1997 it made 271 loans. The average loans range is between US\$ 70 to US\$ 2,000. Currently PAPIR claims to have a 77% repayment rate. Some of the constraints that PAPIR experiences are lack of satisfactory monitoring and reporting systems and little expansion opportunity in operations.

9.4 Target interventions: Currently, PAPIR's clientele are small-scale manufacturers, service providers and rural traders.

10. CAIXA DE MULHERES DE NAMPULA (CMN)

10.1 Ownership and Management Structure: The CMN is a savings and credit cooperative for women which was started in 1994. The CMN's mission, vision and purpose is ultimately determined by its members who debate important issues during their meetings and General Assembly; recommendations are then presented and debated in plenary sessions. The CMN has an elected General Assembly, a Financial Control Committee, and a Credit Commission. CMN's daily operations are run by a manager, credit officers, an accountant and other support staff. CMN's loan capital has been entirely generated from members' savings. The CMN has benefited from some technical assistance since its inception, initially from the Dutch NGO SNV and subsequently a Canadian NGO consortium.

10.2 Financial Performance: Funding for 2001, from the Canadian NGO Consortium, covers salaries (MZM 165 million), promotion MZM 33 million CMN generated funds (interest and membership fees) are expected to cover half of the budgeted administrative operational costs (i.e. 50% of MZM 32 million) and to pay about a quarter of promotional costs. Joining fees were raised last year from MZM 40,000 to 50,000. Largely for administrative reasons, interests on savings have been discontinued without any apparent negative reaction from members. Currently there are some 200 members with active loans. Originally credit was disbursed through solidarity groups until 1999, and more recently individual lending. Two types of loans are available: 1) agricultural loans with maximum of MZM 500,000 (9 month terms and guaranteed by 50% savings) and commercial loans with an upper limit of 1m MZM (first loan) to a maximum of MZM 6.0 million (changed from 4m MZM last year) with terms of 4-6 months (depending on amount). Payments are made on a monthly basis at 4% per month. Since its inception 36 clients have not repaid their loans (about 10 in year 2000) for an outstanding value of MZM 39,766 million; the Caixa has so far not adopted a write off policy, so all bad loans remain on the books.

10.3 Target interventions: The CMN provides loans for women's informal sector activities such as petty trading and other services. It operates mainly in Nampula, with a membership of some 600 to 900 in the year 2000. The clients are situated up to 50km around the city, but most are resident in the immediate suburbs around Nampula. The beneficiary women are much more involved in agricultural activities and almost all have access to a small plot of land. However, informal sector commerce for many is a new area of activity as this sector is heavily dominated by men. Therefore, the CMN is the first of its kind to provide credit to women in the informal sector.

11. Mozambique Association for Rural Development (AMODER) (Associacao Mocambicana para o Desenvolvimento Rural)

11.1 Ownership and Management: AMODER was created as a means of continuing the activities of support to the rural sector as initiated by AGRICOM a parastatal marketing organization dismantled in early 1990s, with the support from a group of Swedish NGOs called Practical Solidarity (PS). The funds generated by the sale of second hand clothes were used for social activities to benefit rural areas.

11.2 Target interventions: AMODER's experience is very relevant for financing suppliers of fishing materials as well as for refrigeration units. It has a few credits in the provinces of Inhambane and Cabo Delgado. In Cabo Delgado they lend to large-scale suppliers with funding from Oxfam (Belgium) as a part of the food security project. The strategy was to increase fish production through the provision of fishing materials on credit. However fishers were reluctant to take on such an investment and there has been slow turnover in the fishing material sales. AMODER is now trying another approach by increasing the demand for dried fish by loans to wholesalers to buy larger volumes.

11.3 AMODER as an institution has several advantages: (i) it is a profitable NGO, not subject to taxes; (ii) it maintains a low institutional profile; (iii) it can offer diversified services to customers; (iv) it has experience of working in rural areas; and (v) it has experience of working with international organizations.

12. Mennonite Economic Development Association (MEDA)

12.1 Management structure: MEDA is a Canadian association of business people specialized in supporting sustainable micro-enterprise development programs. MEDA started operations in 1998 in Maputo with some foreign staff and some local technical experts.

12.2 Financial performance: MEDA charges an annual interest rate which is based on commercial rates plus administrative costs. Latest information shows the current effective interest rate is 87% with 16 equal weekly repayment installments. New clients have to pay a one-time membership fee of 3% of first loan amount. Borrowers must make a compulsory saving of 15% of the loan amount into a guarantee fund. As of 1998 MEDA had an outstanding loan portfolio of US\$ 8,925. For the same period MEDA has reported 100% on-time repayment.

12.3 Target intervention: MEDA operates only in Maputo and aims to provide credit to the informal sector vendors in the local markets, approximately 2,500. The lending methodology is groups of 5 members. The average loan amount is US\$ 65 to 85, which can subsequently be increased as the client proves good repayment record. Currently there are 21 active borrower groups with about 60% female clients.

CONCLUSION

There is wide range of MFIs that are already serving the rural communities in the country and successfully managing their credit portfolios. The portfolio size of the above-asset MFIs is ranging between USD 300,000 and USD 10.7 million. All of the above-reviewed institutions are striving to expand their outreach and thus their operations in the country. It was observed that all MFIs that received technical donor support are gaining managerial capacity and administrating larger portfolios adequately. The recovery rate of the reviewed MFIs is averaging 85%. Most of MFIs that were met by the project mission team during project preparation and appraisal expressed their interest to participate in the new fisheries project.

SECTION II

PROCEDURES TO ACCESS THE CREDIT FUND

1. Credit Administration:

- 1.1. Of late the Government of Mozambique (GOM) has created an enabling environment for micro-credit administration for non-banking financial institutions in order to reach rural populations in remote areas. In this respect, decisive steps have been taken towards more competitive and less regulated financial system. Credit ceilings have been removed and interest rates liberalized.
- 1.2. Under this project, it is expected that UA 6.8 million will be available over six years for micro-credit for the project beneficiaries in the project selected sites. The fund will be channelled through the Bank of Mozambique (BOM) to the Micro-Finance Institutions (MFIs) under the administration and supervision of the Fisheries Development Fund (FFP) of Ministry of Fisheries. The FFP is an autonomous body under the Ministry of Fisheries (MOF) whose mandate is to manage Government and donor funds for fisheries development and to facilitate the provision of financial services to the fisheries sector. Subsequently, FFP will contract 4-6 qualified Micro-Finance Institutions (MFIs) to deliver the credit directly to the final beneficiaries.
- 1.3. The starting point for the administration of the credit component will be the fulfilment of the relevant condition, which requires GOM to “conclude a suitable agreement with the FFP on terms and conditions acceptable to the Fund (ADF) for the management of the project’s credit resources” (8.2.1, B. iii of the appraisal report).
- 1.4. The MFIs will be selected through competitions on the bases of a short-list according to the Bank Group’s *Rules of Procedures for the Use of Consultants*. For this purpose, the FFP will prepare Terms of Reference (ToR), which describes the project objective, sites, target groups, selection criteria, and scope of services. As a first step, the FFP will publish an invitation for expression of interest by potential institutions. Based on received pre-qualification information, a shortlist will then be prepared. As a second step, the short-listed institutions will be invited to submit technical and financial proposals where the selection will be based on technical quality of the proposal as the main factor.
- 1.5. Each of the final selected 4-6 MFIs will sign an agreement with the FFP for credit delivery and management. Loan size will be released by FFP to respective selected MFIs on the basis of demand as demonstrated by copies of loan applications from beneficiaries. FFP with the help of project staff would be responsible for verifying that loan requests are for fishery related activities in the project area. The maximum amount that an individual selected MFI can access in any period will be proportional to their current portfolio size and its quality including management ability to handle the increased volumes without compromising efficiency. FFP would be responsible for supervising portfolio performance of the selected MFIs, maintaining accounts, submitting statements as required by the BOM and the ADF.

- 1.6. It is envisaged that through the short-listing procedure, and by applying the selection criteria, the most efficient MFI with least administration cost will be selected. Further, the selection of 4-6 MFIs will encourage and ensure competition, which will lead to lower the market interest rates especially the administrative charges to the fishermen. Moreover, it will encourage efficiency in outreach and disbursements.
- 1.7. The credit component under the project is designed to be delivered to eligible beneficiaries based on a set of criteria, which includes payment of 10% of the value of the loan being requested. Beneficiaries will be only able to borrow 90% of the value of the item requested to be financed, as his/her 10% will cover the remaining cost. This is to ensure participation and ownership. Selection criteria for eligible beneficiaries are listed below.
- 1.8. As a part of credit administration, the procurement mechanism of approved items will be managed according to the internationally accepted commercial practice. Beneficiaries will obtain from three different suppliers three pro-forma invoices and submit them together with the loan application to the participating MFI. The MFI, in conjunction with technical staff of IDPPE (Implementing Agency) will vet the loan application including the quotations to ensure value for money for the goods. It is expected that rational beneficiaries will choose the least cost supplier. When the MFI is satisfied and the loan is approved, the MFI will pay the supplier directly after having received the required 10% deposit from the applicant.
- 1.9. Due to the varied demand for credit, it is expected that relatively smaller microfinance institutions will focus on financing small borrowers (value up to USD 1,000) through solidarity groups or individual loans with agreed security. Larger organisations such as FFPI or GAPI are expected to cover the demand for financing amongst larger individual borrowers (requesting items valued above USD 1,000). IDPPE and the Project Management Unit (PMU) would be charged with the responsibility of providing technical advice to borrowers of financial institutions. In order to minimise the cost of credit administration, the project would assist fishers and other small-scale borrowers in preparing loan applications and financial institutions in the technical appraisal of loans.
- 1.10. The selected MFI will be responsible to develop a relevant and simplified loan application form, which the applicants can easily fill, without sacrificing the essential details required. The applications would be appraised to ensure that they are managerially sound, technically feasible and financially viable. The project staff would assist borrowers to complete loan application forms on the one hand, and assist the financial institutions in the technical appraisal of the applications. The credit specialist will be responsible to work with the fishers in this aspect.

2. Criteria for Selecting MFIs

2.1 All the 35 operating MFIs will be allowed to participate in the short-listing and selection process. The following are some selection criteria to be used by the FFP:

- a) Registration with Bank of Mozambique (BOM);
- b) Sound governance and management structures;
- c) Financial performance and recovery rate;
- d) Professional management and micro-finance management experience;
- e) Computerised management information system for loan administration and follow up on repayments; and
- f) Business plans and projections to expand outreach-volume of business and market penetration to reach sustainability in the near future.

3. Eligibility Criteria for Beneficiaries:

3.1 The prospective borrower will submit with the loan application a feasibility study and business plan of the proposed investment. This plan would include a technical and financial feasibility of the investment; the adequacy of the proposed volume of production in accordance with assured marketing prospects; availability of marketing infrastructure and processing facilities and proven and qualified management, organisation and administration. The borrower would also make available to the financial institution, financial statements and other relevant information required.

4. Security:

4.1 MFIs may apply some of the following security measures according to the nature and the amount of the requested loan:

- a) Mortgage of the asset created out of loan;
- b) Deposit of certificate of registration of fishing vessel;
- c) Deposit of marine insurance policy and assignment of insurance cover;
- d) A demand promissory note executed by the borrower;
- e) A personal guarantee of one or more persons acceptable to the MFI;
- f) Deposit of title deeds of immovable property in the case of loans to traders or entrepreneurs; and
- g) A mutual guarantee in case where a joint liability group guarantees the loan.

5. Monitoring and Evaluation

5.1 FFP would be responsible for supervising portfolio performance of the selected MFIs, maintaining accounts, submitting statements as required by the BOM and the ADF. The Project Management Unit (PMU) will be directly responsible for overseeing the project implementation process. The PMU through FFP will monitor and evaluate the credit performance and portfolio management. The Bank will also supervise and monitor the project implementation through regular field supervision missions twice a year.

5.2 The FFP will be required to obtain and consolidate project progress reports from respective MFIs for submission to BOM and ADF. The FFP will monitor individual loan applications and the disbursement of credit through the respective MFIs. The FFP will also coordinate arrangements for the preparation of audits of each respective MFI at the end of each year, for submission to the ADF. In addition the FFP will submit to the ADF quarterly progress reports (QPR) on the implementation of the credit component among other activities. The report will detail the number and types of subprojects approved by each of the MFIs under the project, the level of disbursements to the subprojects, and their state of actual implementation. It will provide the extent to which the subprojects have met their developmental objectives. The reports will also include detailed reconciliation statements of the project and operational accounts maintained for the project.